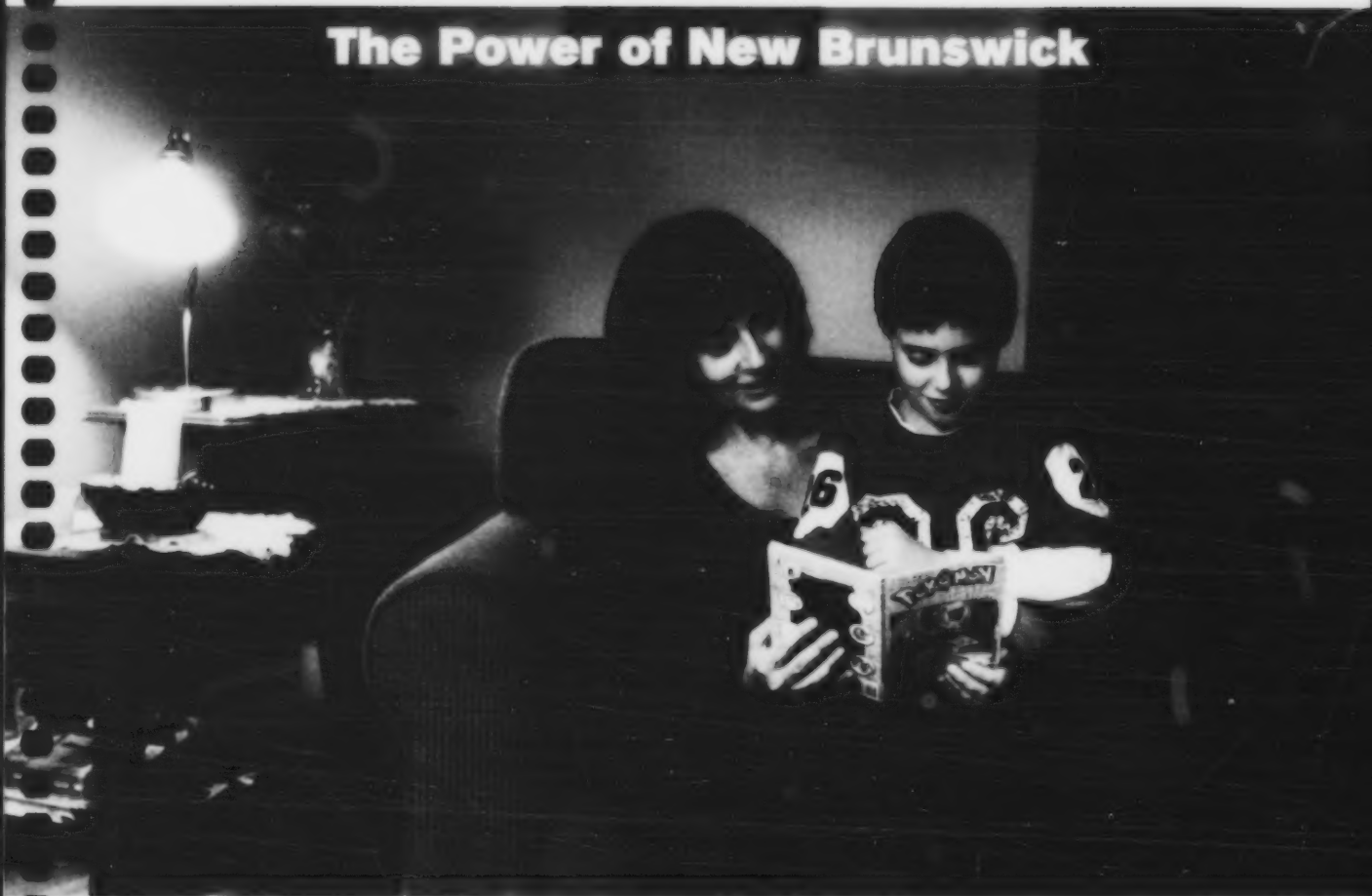




**Énergie NB Power**

Groupe Group

## **The Power of New Brunswick**



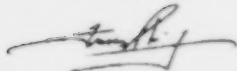
**2007/08 ANNUAL REPORT**

To The Honourable  
Jack Keir  
Minister of Energy

Sir:

I Would like to deliver the 2007/08 Annual Report

Yours very truly,



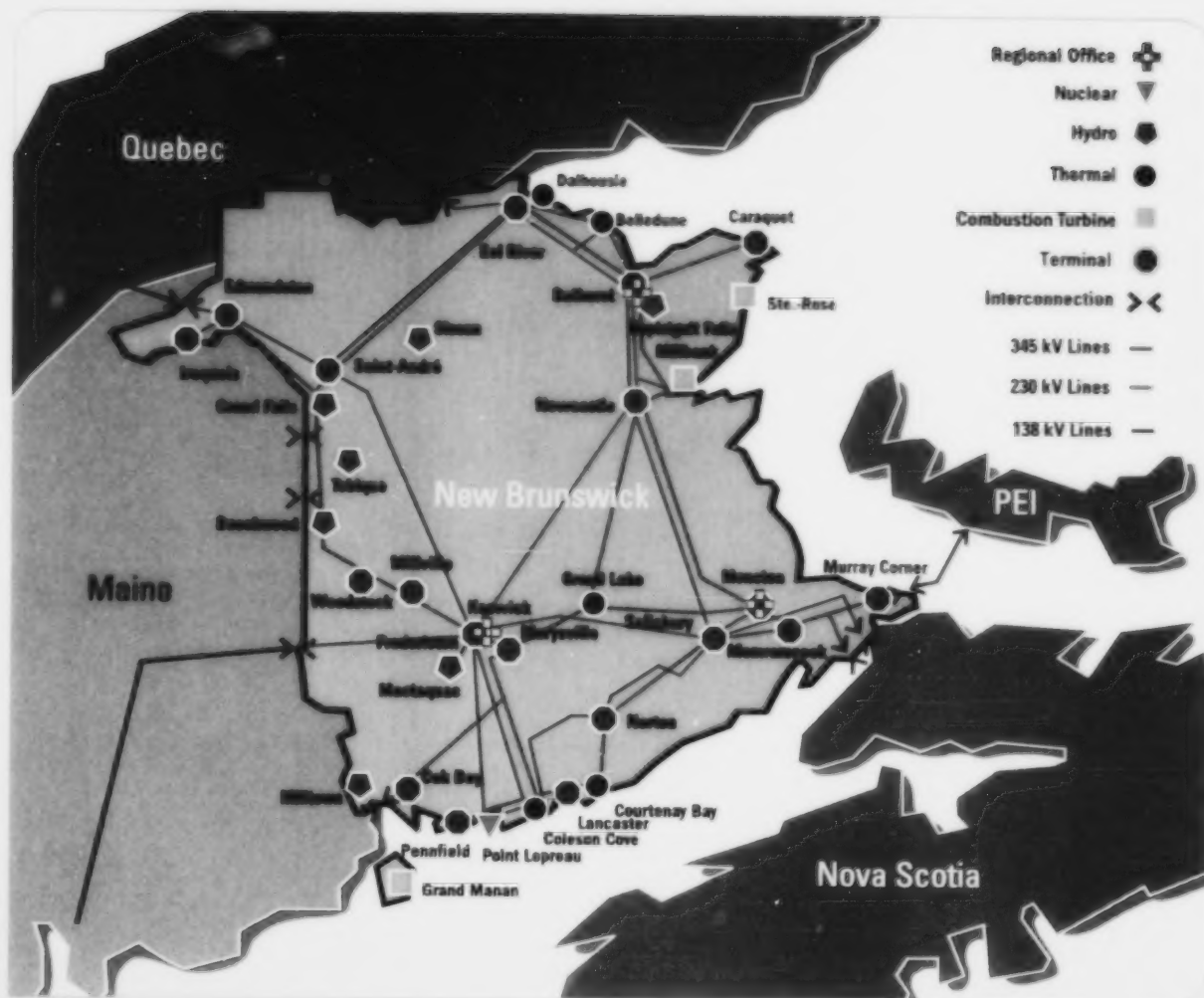
Francis McGuire  
Chairman

## COMPANY PROFILE

The NB Power Group (The Group) serves New Brunswickers electricity at the lowest possible cost, consistent with safety, reliability and the environment. The electricity is generated at 16 facilities and delivered via power lines, substations and terminals to more than 370,000 direct and indirect customers within New Brunswick. In addition, the Group exports electricity to New England, Quebec, Nova Scotia and Prince Edward Island.

The Group consists of a holding company and four operating companies

- New Brunswick Power Holding Corporation (Holdco), which provides strategic direction, governance and support to the operating companies for communications, finance, human resources, legal and governance. It also provides shared services on a cost-recovery basis
- New Brunswick Power Generation Corporation (Genco), which is responsible for the operation and maintenance of the oil, hydro, coal and diesel-powered generating stations  
Genco wholly owns two subsidiaries
  - New Brunswick Power Coleson Cove Corporation (Colesonco), which owns and operates Coleson Cove Generating Station, with a generating capacity of 978 MW included in Genco's total capacity
  - NB Coal Limited (NB Coal), which mines local coal to supply Grand Lake Generating Station
- New Brunswick Power Nuclear Corporation (Nuclearco), which is responsible for the operation of Point Lepreau Generating Station
- New Brunswick Power Transmission Corporation (Transco), which is responsible for operating and maintaining the transmission system
- New Brunswick Power Distribution and Customer Service Corporation (Disco), which is responsible for operating and maintaining the distribution system. Disco is designated as the standard service supplier for the Province of New Brunswick and is obligated to provide standard services to residential, commercial, wholesale and industrial customers located throughout the province.



#### Genco

##### Generating Capacity

##### Thermal

Belledune	458 MW
Coleson Cove	978 MW
Courtenay Bay	110 MW
Dalhousie	300 MW
Grand Lake	57 MW
<b>Total Thermal</b>	<b>1,903 MW</b>

##### Combustion Turbine

Grand Manan	27 MW
Millbank	399 MW
Ste. Rose	100 MW
<b>Total Combustion Turbine</b>	<b>526 MW</b>

##### Hydro

Beechwood	113 MW
Grand Falls	66 MW
Mactaquac	672 MW
Milltown	4 MW
Sisson	9 MW
Tobique	20 MW
Nepisiguit Falls	11 MW
<b>Total Hydro</b>	<b>895 MW</b>

#### Nuclearco

##### Generating Capacity

##### Nuclear

Point Lepreau	635 MW
---------------	--------

##### Total Generating Capacity

Conventional	3,324 MW
Nuclear	635 MW
<b>Total</b>	<b>3,959 MW</b>

#### Transco

# of km of transmission lines	6,801
Export capacity	2,677 MW
Import capacity	1,980 MW

#### Disco

# of direct customers	335,513
# of indirect customers	41,451

# Annual Report

**2007/08**

Message from the Chair .....	5
Message from the President and Chief Executive Officer .....	6
The Power of New Brunswick .....	8
Operating Company Highlights .....	16
Financial Review .....	18
• Management's Discussion and Analysis .....	18
• Management's and Auditors' Reports .....	36
• Combined Financial Statements .....	37
• Notes to the Combined Financial Statements .....	42
Statistical Overview .....	60
Boards of Directors .....	65
Senior Management .....	66
Governance .....	66
Glossary .....	67



# Message from the Chair

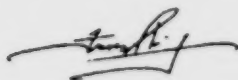
NB Power exists to serve New Brunswickers with the electricity they need today and tomorrow. It is the duty of the Corporation's Board of Directors to provide appropriate guidance and governance to help achieve the best results for the people of this province. In today's volatile economy, more than ever, that means striving for stability – the stability of rates that both families and businesses need in order to plan and to prosper.

Over the past year, reinforcing NB Power's strong governance foundation has remained a priority for the Directors and my two predecessors as Chair. Derek Burney's three-year term ended on June 30, 2007, and Norman M. Betts served as interim chair until my appointment on September 6, 2007. I would like to thank both of them for their contributions. I would also like to thank Lise Bastarache, who completed her term as a Director on October 30, 2007, and to welcome Eloi Duguay who joined the Board on October 25, 2007.

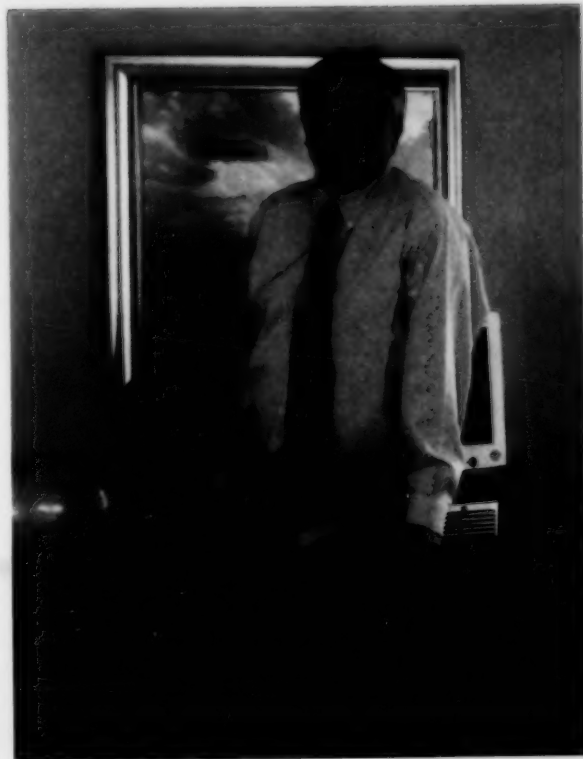
Throughout the year, the Board continued to review NB Power's performance, plan for its future and provide guidance through the Audit, Environment, Health and Safety, Human Resources and Governance and Nuclear Oversight Committees. We believe New Brunswickers can take pride in the Corporation's achievements which include record reliability, settlement of the Orimulsion lawsuit and recognition as one of Canada's Top 100 Employers. As well, the past year saw the Corporation successfully set the stage for the refurbishment of Point Lepreau Generating Station – the world's first refurbishment of a Candu 6. Continued oversight of the refurbishment will remain a Board priority throughout the coming year.

Shortly after the year end, the Board established a set of key performance indicators to help address energy sector challenges and increase the Corporation's accountability and visibility. These indicators provide both clear goals for NB Power and clear measures of how well it and its executive team are doing.

There is no doubt these are challenging economic times, but we are confident with ongoing good governance, careful management and dedicated employees, NB Power will continue to strengthen its contribution to New Brunswick's development and the well-being of New Brunswickers.



Francis McGuire  
Chairman



# Message from the President and CEO

The past year has seen major accomplishments for NB Power, as well as ongoing challenges.

We saw the Orimulsion lawsuit settled, the second International Power Line (IPL) brought into service on time and on budget and the refurbishment of Point Lepreau Generating Station begin. We added to our renewable energy sources with the purchase of Nepisiguit Falls Generating Station and with additional contracts for wind generation. We experienced an all-time low of one lost-time accident, a tremendous achievement by our employees who work in a range of industrial and office settings. And we were named one of Canada's Top 100 Employers.

The year also brought higher fuel and purchased power prices, reduced in-province sales due to closures in the pulp and paper industry, and lower export sales.

We have continued to focus on operational excellence and an appropriate rate strategy in order to achieve financial viability and to realize our vision of ranking among the best-run utilities and contributing to a more vibrant New Brunswick.

## Financial Results

The NB Power Group recorded net earnings of \$89 million in 2007/08 compared to \$21 million in the previous year. Two significant factors outside normal operations contributed to this result:

- The lawsuit settlement with PDVSA, which had an impact of \$29 million
- A one-time accounting gain of \$30 million on de-designation of forward purchase contracts for heavy fuel oil for 2008/09.

Higher in-province revenue of \$78 million due to implementation of the approved 5.9 percent average rate increase across all customer groups was offset by:

- Higher fuel and purchased power prices
- Reduced hydro flows
- Lower nuclear generation
- Lower in-province load due to the closure of major industrial customers
- Lower export sales because the incremental cost to generate electricity was not always competitive in the export market.

Fuel and purchased power was \$585 million in 2007/08, an increase of \$25 million over the previous year, primarily driven by fuel price increases, lower hydro availability and lower nuclear generation.

We have been implementing a range of measures to help deal with the challenge of fossil fuel price escalation. NB Power is fortunate to have a diverse generating system – with thermal, nuclear and hydro generation – and a diverse fuel supply. We use this diversity to best advantage by dispatching generation in order from lowest to highest incremental cost. To help manage fossil fuel costs, we purchase energy at favourable prices when possible to offset higher generation costs. We do this through our own 24-hour Energy marketing desk that we implemented two years ago. We also make forward purchases of fuel and currencies to assist in rates stability. The point of all of these measures is to benefit New Brunswickers by keeping rates as low as possible.

## Operational Highlights

This was a year in which we achieved a number of operational advancements that position us well for the future.

The completion of the International Power Line (IPL) project in December 2007 provides us with a second link with New England. Built in partnership with Bangor Hydro, this 345 kV transmission line increases reliability and efficiency and allows for further market development. This second link ensures that should we need a back-up line, we have one. Additionally, Hydro Quebec is currently leasing the line, which means that our mortgage is being covered while we are still able to enjoy the benefits of this second line.

Point Lepreau Generating Station became the first CANDU 6 reactor to successfully reach its full life and first to be refurbished. During the year the Station continued its preparations for the 18-month refurbishment outage that began on March 28, 2008. The refurbishment will extend the Station's life by another 25-30 years, providing us with a fuel source that is emission free and not subject to the volatility of carbon based fuels.

We accelerated our efforts to achieve 10 per cent of generation from wind by 2010, rather than 2016. During the year we signed contracts for 213 MW of wind development in the Province, making a total of 309 MW of wind to be online by 2009. We purchased Nepisiguit Falls Generating Station from Smurfit-Stone Container Corporation, adding 11 MW of hydro to our system and bringing our total number of hydro generation stations to seven. We continue to look at the potential for other renewable options.

We are also continuing our consideration of alternative fuels. We undertook a demonstration project to determine the feasibility of burning petroleum coke and heavy fuel oil at Coleson Cove Generating Station, with the initial firing taking place in March 2008. We believe that this test will demonstrate that our



technology can help reduce costs by 20-30% in this unit. In addition to this work, we continue to work to reduce our CO<sub>2</sub> emissions. One way we will be able to do this is through the refurbishment of Point Lepreau. Once up and running again it will help us avoid two million tonnes of CO<sub>2</sub> emissions per year. In addition, we are continuing to investigate other renewable energy sources.

Our employees again showed the dedication that is the key to our commitment. Their hard work is demonstrated in all of our results – including achievement of reliability targets, the on-time and on-budget pre-refurbishment work and the completion of the IPL almost a month ahead of schedule. As a result of their support for our culture of safety, in 2007/08 we experienced an all-time low of one lost-time accident. Our good relationship with our employees and with our union, the International Brotherhood of Electrical Workers Local 37, is reflected in the successful negotiation of new five-year collective agreements and in our being named one of Canada's Top 100 Employers.

#### Going Forward

Throughout 2008/09 and into 2009/10, we will be refurbishing Point Lepreau Generating Station. In that process, we will focus on executing the project on time and on budget. During the refurbishment outage we will also ensure that we have a reliable supply of electricity for New Brunswickers.

We will take measures to mitigate fuel costs by purchasing energy when it is less costly than internal generation. We will further test the feasibility of alternative fuels, as an option to decrease our operating costs. We will continue to pursue renewable energy opportunities. In every aspect of our operations, we will aim for continuous improvement.

We are committed to serving New Brunswickers with safe, reliable electricity.

David D. Hay  
President & Chief Executive Officer



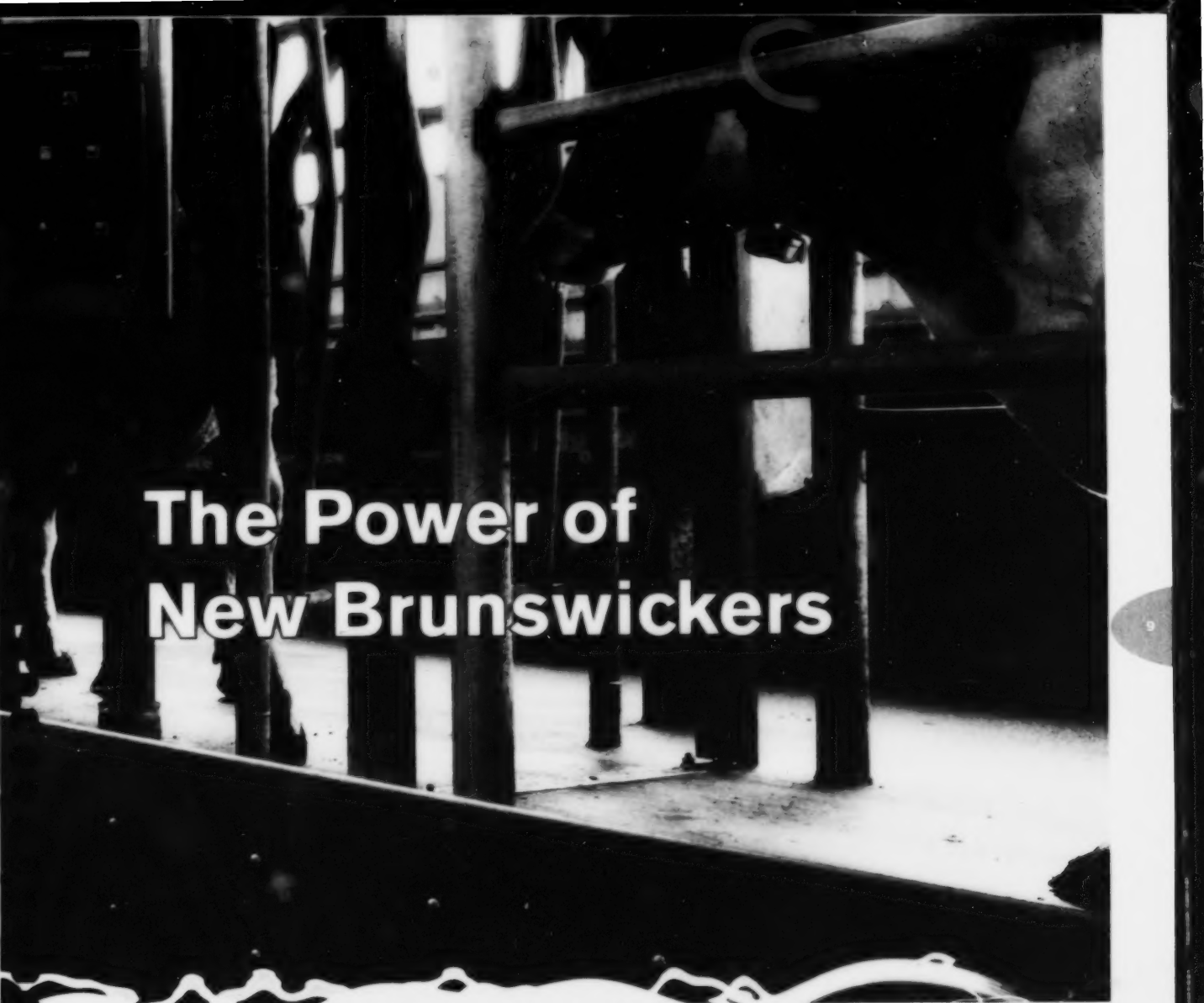
Rachel Brown and Nick O'Donnell – Hazel Hill Farm Ltd

Farming demands day-in-day-out, year-round dedication. And farmers like the Robinson family of Hazel Hill Farms Ltd. need energy that's just as reliable.

NB Power's employees work around the clock to provide a supply of electricity to power our lives – whether that's getting the milk ready for your breakfast or having a morning shave, making a multimedia presentation to prospective clients, cooking dinner or helping your kids with their homework. Electricity is at the heart of what we do.

No matter whether it's morning, noon or night, whether we're at home, at work, at school, or at play, all of us rely on electricity. At NB Power, we're focused on providing the comfort of reliability – so no-one has to wonder if the lights will come on when they flick the switch.

Thanks to ongoing maintenance and capital improvements, NB Power continues to meet its distribution reliability targets. Even when the weather is very bad, the Corporation's fully developed storm response process ensures the greatest efficiency and safety possible.



# The Power of New Brunswickers

New Brunswickers benefit from a diverse fuel supply (thermal, nuclear, hydro), a robust transmission network and from NB Power's commitment to safety.

To make sure we have the future electricity supply we will need, the Corporation is forward looking. We:

- completed in December 2007 the second International Power Line, connecting New Brunswick and New England
- undertook in partnership with Atomic Energy of Canada Limited the refurbishment of Point Lepreau Generating Station
- accelerated acquisition of wind-powered generation



# The Power of Communities

David D. Hay and the Children of Sussex Middle School

Énergie NB Power

PAY TO  
THE ORDER OF

Sussex Middle

Three Thousand Dollars

BANK OF EARTH  
STREET  
TOWN

Education Challenge

New Brunswick's communities – they're where we live, where our future lies. Our communities nurture all of us. In turn, they need us to work together to strengthen them.

NB Power takes an active role in the community.

That's what we're doing at the Canadian Nuclear Energy Research Centre, a non-profit research and corrosion monitoring company located at the University of New Brunswick. It's the point of our partnerships with the Université de Moncton and Renaissance College – helping to ensure we have the skills and resources we need for the future.

This year's inaugural NB Power Earth Day school competition inspired young minds to take up the challenge of energy conservation. The Shad Valley program at the University of New Brunswick, which NB Power is proud to be involved in, helped youth to recognize, harness and strengthen their talents; and the launch of Families and Communities Enriching



Schools (FACES) program, a partnership that families, the business community and services agencies have established with schools, is offering volunteer and financial support to our schools.

NB Power keeps in touch through long-standing community relations committees for Point Lepreau Generating Station, Coleson Cove Generating Station and the International Power Line. Over the past year, the Corporation established new committees for Dalhousie Generating Station and Belledune Generating Station.

Around the province, NB Power promotes safety through in-person presentations, in addition to its televised safety campaign. It has teamed up with Crime Stoppers and implemented new technology to deter copper theft. As well the Corporation, along with many of its employees, is a proud participant in such fundraising campaigns as the United Way, CIBC Run for the Cure and more.





Energy fuels our economy. And the production of energy is boosting economic development across the province.

New Brunswickers are front and centre in NB Power's ongoing activities, as well as in its major projects. For example, partnerships with our province's construction labour market have been integral to the successful completion of the second IPL, a vital energy link between New Brunswick and New England. That same kind of partnership is involved in the refurbishment of Point Lepreau Generating Station, the first CANDU 6 reactor to successfully reach its full life. The refurbishment will extend the Station's life, by another 25-30 years. At the same time, the project is boosting New Brunswick's nuclear expertise.

# The Power of Economic Development

NB Power Employee: Kathy Abbott

AECL Employee: John Brake

Lorneville Mechanical Contractors: Mark Goddard

Similarly new projects in renewable energy and alternative fuels are providing current employment and economic expansion, as well as future opportunities. NB Power is accelerating its purchase of wind-powered generation, exploring generation from other renewable sources, such as biomass, landfill gas, small hydro, solar and tidal, and testing the feasibility of using a blend of petroleum coke and heavy fuel oil at Coleson Cove Generating Station. So when you look at the Kent Hills wind farm project, as one example, what you'll find is New Brunswick talent at work.

That's what you'll find, as well, in our ongoing operations. New Brunswick companies working with NB Power and New Brunswickers doing the job – companies like Traceyville-based pole supplier Marwood Ltd. or Sackville-based transformer supplier Moloney Electric Inc.



# The Power of Conservation

NB Power Employee Lynn LeBlanc works with a customer building a new home.

In New Brunswick, the old-fashioned virtue of "waste not, want not" has never gone out of style, but it's gained new currency in the face of today's challenges.

New Brunswickers are taking up the conservation challenge and at NB Power we have a range of measures to help that effort and capitalize on our renewable sources of energy.

We're expanding our net metering policy, which gives our customers the option to connect their own environmentally friendly generation unit to NB Power's distribution system. We're partnering with Efficiency New Brunswick on initiatives and community outreach. We work with communities through partner programs with schools where we teach children



15

about safety and electricity conservation. We take part in home show conservation promotions as well as working with the Home Builders Association. We conduct energy walk-throughs with our customers to help them understand where energy is being used and how efficiency can be improved.

At the same time, we strive to operate with respect for the environment. That ranges all the way from preserving osprey nests to installing flue gas desulphurization equipment – at Coleson Gove Generating Station, for example, SO<sub>2</sub> emission rates have been reduced by 77 per cent thanks to that equipment.



**Energie NB Power**

Production Generation

Genco operates and maintains one of North America's most diverse generating systems, consisting of 15 hydro, coal, oil and diesel-powered stations with an installed net capacity of 3,324 MW. Genco supplies approximately 75 per cent of in-province load through sales to NB Power Distribution and Customer Service. It also exports energy to neighbouring New England, Quebec, Prince Edward Island and Nova Scotia markets. Genco has fixed assets with a net book value of \$1,884 million.

#### 2007/08 Key Accomplishments

- Began testing a blend of petroleum coke and heavy fuel oil as an alternative fuel at Coleson Cove Generating Station
- Secured a significant amount of capacity and energy for the period of Point Lepreau Generating Station refurbishment outage
- Purchased lower-cost gas-based energy to displace more costly internal oil-fired generation
- Achieved 80.5 per cent thermal equivalent availability

#### 2008/09 Plans

- Provide sufficient generation during Point Lepreau Generating Station refurbishment outage
- Mitigate fuel costs by purchasing energy when it is less costly than internal generation
- Complete Coleson Cove Environmental Impact Assessment
- Determine if alternative fuel is feasible for use at Dalhousie Generating Station
- Monitor and adapt to evolving environmental regulations



**Energie NB Power**

Nucléaire Nuclear

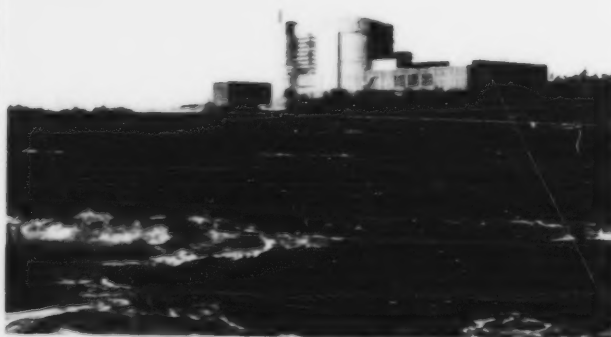
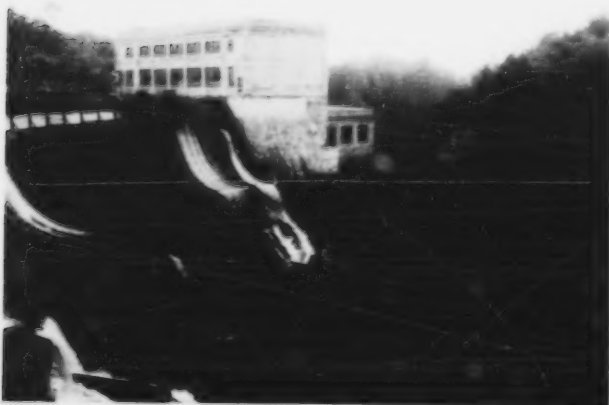
Nuclearco operates and maintains a CANDU 6 – 635 MW reactor at Point Lepreau Generating Station. The Station provides approximately 25 per cent of New Brunswick's electrical energy requirements. It also sells five per cent of its energy production to Maritime Electric Company, Limited. Nuclearco has fixed assets with a net book value of \$821 million.

#### 2007/08 Key Accomplishments

- Operated the first CANDU 6 reactor to successfully complete 25 years of service
- Operated for 112 continuous days in the lead-up to the refurbishment outage
- Successfully completed the planned spring 2007 maintenance outage below budget and ahead of schedule
- Successfully completed pre-refurbishment outage work on time and on budget
- Achieved 1.9 million person-hours without a lost-time accident from January 2007 to March 2008
- Achieved a net capacity factor of 72.8 per cent

#### 2008/09 Plans

- Safely execute refurbishment on time and on budget
- Achieve world-class performance by adopting standards of excellence in all areas and establishing a culture of continuous learning and growth





Transco operates and maintain 46 terminals and switchyards that are interconnected by over 6801 km of transmission lines ranging in voltage from 69 kV to 345 kV. The system is interconnected with electrical systems in North America, including Quebec, Maine, Nova Scotia and Prince Edward Island. It has an export capacity of 2,677MW and an import capacity of 1,980 MW. Transco has fixed assets with a net book value of \$375 million.

#### 2007/08 Key Accomplishments

- Completed and energized the second International Power Line, nearly one month ahead of schedule
- Performed preventive maintenance in preparation for Point Lepreau Generating Station refurbishment outage
- Improved transmission system reliability
- Undertook a multi-year project to improve core work management and maintenance management processes
- Began initiatives to analyse lightning impacts and engineer mitigating solutions
- Achieved "zero" lost-time due to accidents
- Successfully negotiated a five-year collective agreement

#### 2008/09 Plans

- Meet the construction schedule for wind development projects
- Ensure optimum system performance during Point Lepreau Generating Station refurbishment outage
- Focus on continuous process improvement via the workforce management project and such work as maintenance and vegetation management



Disco is the standard service supplier, responsible for securing adequate capacity and energy to meet customer demand in New Brunswick. Disco delivers safe, reliable and reasonably priced energy to 335,513 direct customers and 41,451 indirect customers by way of its 20,284 km of distribution lines and substations. It also provides valuable customer services through its regional offices, customer interaction centres, account managers and energy advisors. Disco has fixed assets with a net book value of \$526 million.

#### 2007/08 Key Accomplishments

- Accelerated efforts to achieve 10 per cent of generation from wind by 2010, rather than 2016
- Signed contracts for 213 MW of wind development in the province, making a total of 309 MW of wind to be online by 2009
- Received positive rates decision from the New Brunswick Energy and Utilities Board (EUB) in February 2008
- Expanded mobile collection unit for meter reading in Moncton
- Reported one lost-time accident
- Achieved reliability targets for second year in a row
- Undertook two multi-year projects to improve core work management and maintenance management process and the customer interface
- Successfully negotiated a five-year collective agreement

#### 2008/09 Plans

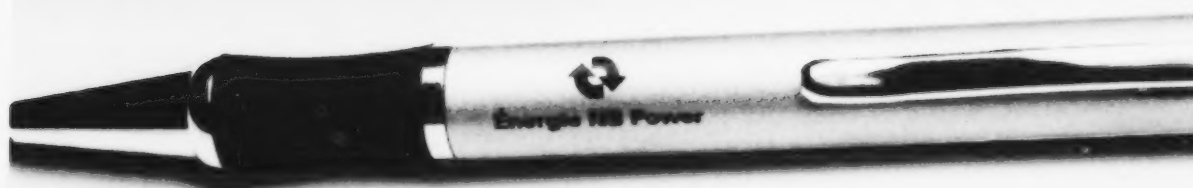
- Ensure that wind contracts are operational on schedule
- Participate in rate review process
- Complete implementation of a fully integrated work management system and implement improvements in regard to the customer interface through the Internet and telephone Interactive Voice Response (IVR).



# Financial Review

2007/08

Management's Discussion and Analysis .....	18
Management's and Auditors' Reports .....	30
Combined Financial Statement .....	31
Notes to the Combined Financial Statements .....	35
Statistical Overview .....	52



Management's discussion and analysis reviews the results from operations for the fiscal year ended March 31, 2008, relative to the previous year. This section should be read in conjunction with the Combined Financial Statements and the accompanying notes.

The Combined Financial Notes include the accounts of New Brunswick Power Holding Corporation and those of its Operating Companies

- New Brunswick Power Generation Corporation (Genco)\*
- New Brunswick Power Nuclear Corporation (Nuclearco)
- New Brunswick Power Transmission Corporation (Transco)
- New Brunswick Power Distribution and Customer Service Corporation (Disco)

\*Including the New Brunswick Power Coleson Cove Corporation (Colesonco) and NB Coal Limited (NB Coal), both subsidiaries of Genco

These are collectively referred to as the NB Power Group, the Group or the Corporation.



## THE COMPANY

The NB Power Group serves New Brunswickers with electricity at the lowest possible cost, consistent with safety, reliability and the environment. The electricity is generated at 16 facilities and delivered via power lines, substations and terminals to more than 370,000 direct and indirect customers within New Brunswick. In addition, the Group exports electricity to New England, Quebec, Nova Scotia and Prince Edward Island.

### Safety

The NB Power Group maintains a strong safety record and continues to strive to rank as a top performer for safety among comparable electric utilities in Canada. The Group also promotes customer and contractor safety through a public awareness campaign.

### Reliability

Through preventive maintenance and capital investment, the NB Power Group maintains a reliable transmission and distribution system to provide electricity safely and reliably to New Brunswickers. It also maintains a reliable generating system with maintenance investments in its stations and refurbishment investment in Point Lepreau Generating Station. The NB Power Group monitors and addresses emerging generating, transmission and distribution system maintenance issues.

### Environment

The NB Power Group operates with respect for the environment. It operates pollution control equipment, diverts generation by-products from landfills and manages environmental management systems. It takes advantage of renewable energy resources and explores opportunities for energy efficiency.

The Group is a member of the Canadian Electricity Association and as such, a participant in the Environmental Commitment and Responsibility program. Through this industry-wide initiative, the Group reports on specific measures and indicators to benchmark its environmental performance. In following the program, it strives to be more efficient in its use of resources, reduce the adverse environmental impact of its business, be accountable to its constituents and ensure that its employees understand the environmental implications of their actions and have the knowledge and skills to make the right decisions.

NB Power publishes an annual Environmental Report, available online at: [www.nbpower.com](http://www.nbpower.com)

### Vision

The NB Power Group strives to achieve a level of excellence that will rank it among the best-run utilities and that will contribute to a more vibrant New Brunswick.

## FINANCIAL VIABILITY

Government has asked the NB Power Group to operate on a break-even basis. The Corporation continues to pursue key initiatives to focus its efforts to achieve financial viability.

### Business Excellence

The NB Power Group integrates risk management, balanced scorecard and business planning and budgeting processes to increase efficiency and improve management practices.

NB Power will continue its focus on continuous improvement to achieve business excellence.

### Rates

NB Power uses oil, coal and natural gas to fuel a significant portion of its generating capacity. Due to the continuing rise in fossil fuel prices during the period, NB Power submitted a rate application to the New Brunswick Energy and Utilities Board (EUB) in April 2007 for an average 9.4 per cent rate increase. As a result of the settlement of the lawsuit with Petroleos de Venezuela SA (PDVSA), the Group was able to amend this application in August to an average 7.1 per cent rate increase request and subsequently to 6.4 per cent.

On February 22, 2008, the EUB announced that NB Power's 2007/08 rate increase would be 5.9 per cent, rather than the 6.4 per cent the Group had requested. While accepting most of the application as presented, the EUB had a lower financial break-even point than that submitted by NB Power. As directed, NB Power rebated customers for the difference between the interim rate collected and the 5.9 per cent approved rate increase.

The Minister of Energy advised NB Power in March 2008, that the three per cent increase scheduled for implementation April 1, 2008 would be subject to review. Shortly after the end of the fiscal year, NB Power filed the complete package of rate information with the EUB and the public.

### Fuel Cost Mitigation

To help manage fossil fuel costs, the Group operates a 24-hour-a-day, seven-day-a-week marketing desk. It exports when market prices in neighbouring jurisdictions exceed marginal costs of NB Power's generation, directing profit margins to keeping in-province rates lower than otherwise possible. Conversely, the marketing desk imports when energy is available in neighbouring jurisdictions at market prices lower than marginal costs of NB Power's generation, thus ensuring New Brunswickers the least cost energy available. As well, NB Power continues to make forward purchases of fuel and currencies to provide New Brunswickers with rates stability and predictability. In addition, the utility is refurbishing the Point Lepreau Generating Station to continue to provide NB Power with reliable electricity from a fuel source that is not linked to volatility in fuel pricing.

## BUSINESS DEVELOPMENT

The NB Power Group works continuously to ensure a long-term reliable electricity supply at the lowest possible cost, consistent with safety and the environment. Long-term business development includes several major projects.

### Point Lepreau Generating Station Refurbishment

In July 2005 the Province of New Brunswick announced its decision to support the Board's recommendation to refurbish Point Lepreau Generating Station in partnership with Atomic Energy of Canada Limited. The refurbishment will extend the Station's life to 2034, providing the NB Power Group with electricity from a fuel source that is not subject to the volatility of carbon-based fuels. The refurbished Station will also continue to provide an environmental benefit by generating electricity that avoids significant carbon dioxide, sulphur dioxide and nitrogen oxide emissions.

Total construction costs, excluding replacement fuel and purchased power costs, are budgeted at approximately \$1 billion.

The 18-month refurbishment outage began on March 28, 2008. Overall the refurbishment is progressing on schedule for project completion and Station restart in the fall of 2009. Expenditures to March 31, 2008 were \$541 million.

### Preparing for Refurbishment

In preparation for the refurbishment outage, NB Power Generation Corporation (Genco) and NB Power Transmission Corporation (Transco) performed proactive maintenance. Genco advanced major maintenance activities into 2006/07 and 2007/08. It also implemented processes to ensure more proactive observation and analysis of the generating system to anticipate and respond to equipment issues before failure. Transco performed preventive maintenance and asset upgrades to optimize delivery reliability.

### International Power Line

In December 2007, the completion of a 345 kV transmission line from the Point Lepreau switchyard to the Orrington, Maine (south of Bangor) switching station created a second major interconnection between New Brunswick and New England. The \$60 million International Power Line, built by Transco in partnership with Bangor Hydro, increases reliability and efficiency and allows for further market development. Following the energizing of the line, there was a successful "open season" when several utilities bid to use transmission capacity on the new line. Hydro Quebec was the successful bidder.

## Alternative Fuels

Genco's oil-fired Coleson Cove Generating Station supplies a significant amount of energy for in-province use and export sales. In response to rising oil prices and the opportunity afforded by the Station's ability to burn alternative liquid fuels, Genco began exploring lower-cost alternative fuels and conducted an industrial-scale test burn of co-firing petroleum coke and heavy fuel oil in the summer of 2006. The favourable results prompted Genco to move to the next phase in the development.

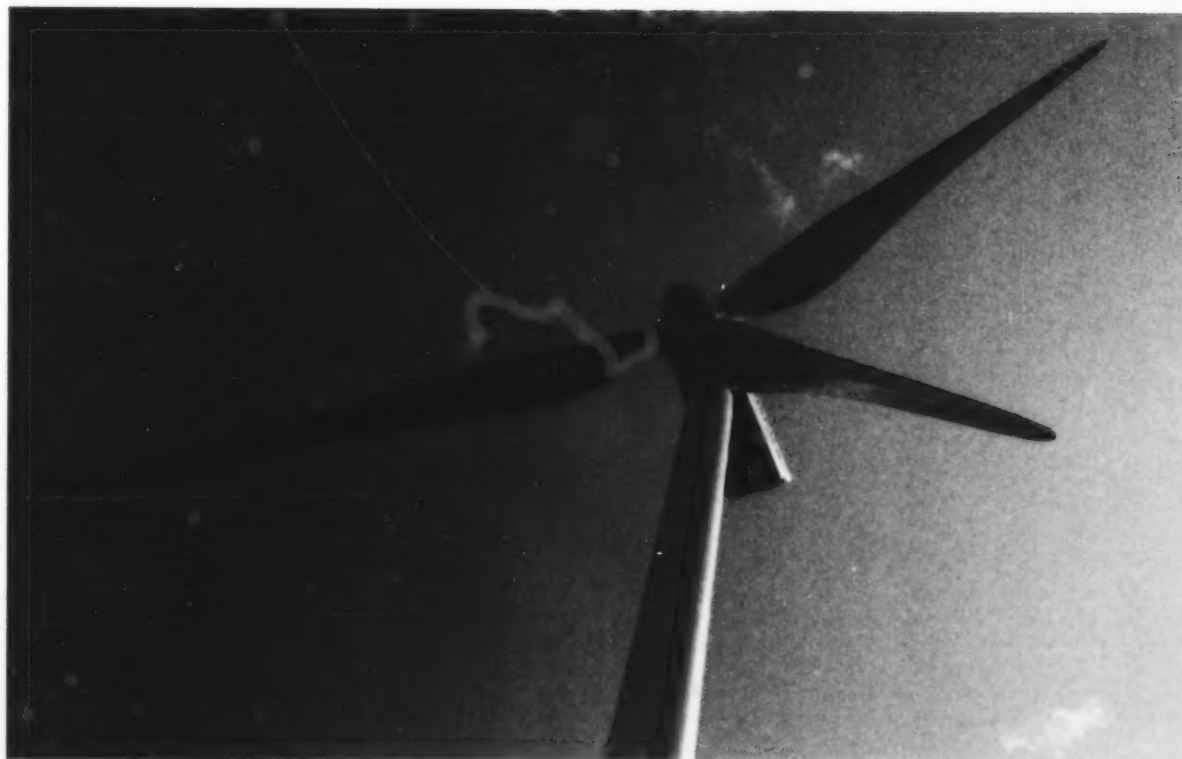
In April 2007, Genco received approval from the New Brunswick Department of Environment to undertake a Demonstration Project to determine the environmental, technical and economic feasibility of burning petroleum coke and heavy fuel oil at Coleson Cove Generating Station. Following this approval, Genco invested more than \$30 million to convert one unit of Coleson Cove Generating Station to be able to burn the new fuel blend. The initial firing of petroleum coke took place in March 2008, with favourable results. Genco also received approval to construct a petroleum coke storage facility.

## Renewable Energy

In June 2007, Genco purchased Nepisiguit Falls Hydro Generating Station, located approximately 30 kilometres south of Bathurst, from Smurfit-Stone Container Corporation. The Station's three generators have a total capacity of 10.8 MW. The Station will provide approximately 52 GWh of electricity a year. Hydro generation is NB Power's lowest-cost form of generation. The Group currently owns and operates six other hydro generating stations. The addition of Nepisiguit Falls Hydro Generating Station provides additional generation from a source other than oil, thus decreasing generation cost.

The development of wind energy projects is also expanding renewable energy sources in the province. During 2007/08, NB Power entered into wind contracts for up to 213 MW of wind. This will bring a total of 309 MW of wind on line by 2009.

NB power continues to explore generation from other renewable sources, such as biomass, landfill gas, small hydro, solar and tidal, to meet the provincial government's renewable energy targets.



## FINANCIAL AND OPERATING STATISTICS

## Variability in Earnings

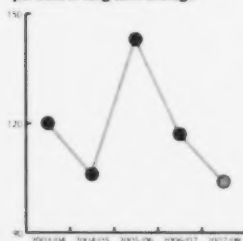
In the normal course of operations, the NB Power Group is subject to significant variability in earnings before interest and taxes. Large components of operating earnings are outside management's control, resulting in significant swings in year-to-year results. The following factors are major drivers of variability and have a significant impact on financial performance because they affect the cost of generation or price competitiveness in export markets.

Financial and Operating Performance Factors	2007/08	2006/07	2005/06
Hydro net generation as percentage of long-term average	104%	117%	143%
Point Lepreau Generating Station net capacity factor	72.8%	78.2%	78.4%
Average heavy fuel oil price (\$US / bbl Platt's NY 3 per cent)	\$61.42	\$43.55	\$40.42
Average natural gas price (\$US / mmbtu)	\$7.50	\$6.82	\$9.35
Average ICR* coal market price (\$US / ton)	\$96.12	\$60.27	\$53.82
Average New England on-peak prices (\$US/MWh)**	\$75.77	\$66.91	\$84.27
Canadian dollar at March 31 (\$US equivalent)	\$0.973	\$0.866	\$0.857

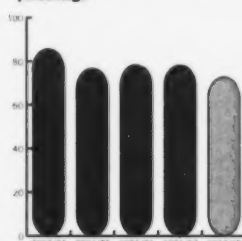
\* International Coal Report \*\* net of congestion and marginal losses

- **Hydro Generation** – Hydro is the NB Power Group's lowest-cost fuel used to generate electricity and typically accounts for approximately 15 per cent of total production. When flows are below anticipated levels, other more expensive fuels are used to account for the shortfall, thereby increasing generation costs. Conversely, when flows are higher than anticipated levels hydro generation reduces the use of expensive fuels and thereby decreases generation costs.
- **Nuclear Generation** – Point Lepreau Generating Station represents up to 25 per cent of total production. Consequently, consistent performance from Point Lepreau Generating Station is essential to positive financial performance. On March 28, 2008, Point Lepreau Generating Station entered into an 18-month refurbishment outage, scheduled to be complete in the fall 2009.
- **Oil Prices** – Volumes of heavy fuel oil which are subject to market fluctuations currently account, for approximately 5 to 10 per cent of total production but represent approximately 15 to 20 per cent of fuel and purchased power costs. To minimize short- to medium-term heavy fuel oil price exposure, the Group purchases 18 months forward the heavy fuel oil that meets its forecasted in-province and firm export requirements.
- **Natural Gas Prices** – The Group has two purchased power contracts tied to natural gas prices. These purchase power contracts typically account for approximately 10 per cent of total production and represent approximately 20 to 25 per cent of the total fuel and purchased power costs. Natural gas price fluctuations will affect the cost to supply in-province load. The Group enters into forward purchase contracts for natural gas price exposure.
- **Coal Prices** – Coal accounts for approximately 20 per cent of total production and represents 15 to 20 per cent of the total fuel and purchased power costs. It is purchased through tendered contracts of one to two years.
- **Short-Term Energy Prices** – As heavy fuel oil world market prices continue to rise, the Group takes opportunities to displace more costly internal oil-fired generation through purchases of lower cost energy that is typically driven by natural gas market prices. Short-Term energy purchases currently represent approximately 10 to 15 per cent of total supply requirements and approximately 25 per cent of total fuel and purchase power costs. The Group enters into forward purchase contracts for energy up to 18 months forward to supply forecasted requirements.

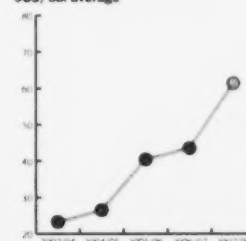
Hydro Net Generation  
per cent of long-term average



Point Lepreau Generating  
Station Net Capacity Factor  
percentage



Heavy Fuel Oil Price  
\$US/ bbl average



- **Exchange Rates** – The Group is exposed to foreign exchange risk through fuel and purchased power priced in US dollars that exceeds revenue received in US dollars. The Group enters into forward purchase contracts for US dollar requirements, net of expected US dollar revenue.
- **Out-of-province Margins** – The Group is a price-taker in regional energy markets. In the normal course of business, lower cost energy is directed to in-province use and higher cost energy that is often heavy fuel oil-based is available for out-of-province sales. The higher cost energy will only be competitive in the out-of-province markets if its marginal cost is lower than available market prices. Market prices in the surrounding Maritime, New England and Quebec regions are driven by the cost of natural gas generation. Depending on the relationship between world prices for natural gas and heavy fuel oil, more or less generation is sold into the out-of-province markets. Operating considerations limit the Group's ability to fix margins by selling forward.

## FINANCIAL PERFORMANCE

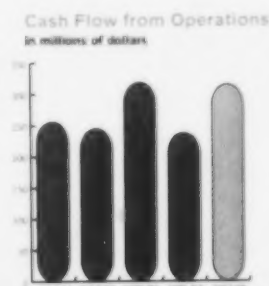
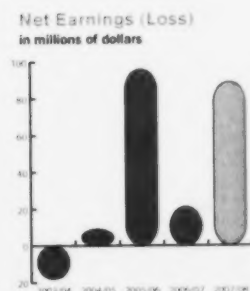
Financial Performance (in millions)	2007/08	2006/07	2005/06
Net earnings	\$89	\$21	\$96
Cash flow from operations	\$316	\$238	\$319
Capital expenditures	\$409	\$287	\$209
Increase (reduction) in net debt	\$233	\$84	(\$26)

Financial Ratios and Percentages	2007/08	2006/07	2005/06
Operating margin	18%	13%	21%
Operating cash flow / capital expenditures	0.77x	0.83x	1.53x
Operating cash flow / total debt	0.09x	0.07x	0.10x
Capital expenditures / net book value of property, plant and equipment	12%	8%	6%
Per cent of debt in capital structure	92%	93%	93%
Interest coverage ratio*	1.58x	1.03x	1.74x

\*Interest coverage ratio is defined as adjusted finance charges (finance charges net of interest income, realized foreign exchange, debt portfolio management fee, interest during construction, debenture discount amortization and deferred interest amortization) divided by the adjusted earnings before interest and taxes (earnings before interest and taxes net of debt portfolio management fee and investment income) as deemed appropriate by the New Brunswick Board of Commissioners of Public Utilities (PUB).

During 2007/08 the NB Power Group

- generated net earnings of \$89 million compared to \$21 million in 2006/07
- generated earnings before special payments in lieu of income taxes of \$138 million compared to \$29 million in 2006/07
- settled the lawsuit with Petroleos De Venezuela, S.A. (PDVSA), which consisted of a \$115 million cash portion and a \$218 million in-kind portion that represents a commitment to deliver a specified quantity of fuel
- implemented an average 5.9 per cent rate increase on June 8, 2007, resulting in an additional \$78 million in revenue
- operated the Point Lepreau Generating Station successfully at the expected capacity factor until the refurbishment outage began
  - the capacity factor for the year was 72.8 per cent compared to a lifetime capacity factor of 82.1 per cent
- planned and assessed risks appropriately which enabled the other generating stations to be readied for refurbishment
- established regulatory deferral accounts related to
  - benefits of the lawsuit settlement with PDVSA
  - costs incurred throughout the Point Lepreau Generating Station refurbishment outage



Two significant factors outside normal operations that contributed to the earnings before special payments in lieu of income taxes during the year were

- the lawsuit settlement with PDVSA which had an impact of \$29 million<sup>1</sup>
- a one-time accounting gain of \$30 million on de-designation of forward purchase contracts for heavy fuel oil for 2008/09 resulting from a load forecast change due to the closure of major industrial customers and the decision to purchase electricity rather than produce power with higher-priced internal thermal units

The other significant factor contributing to the change in year-over-year earnings before special payment in lieu of income taxes was an increase in gross margin of \$40 million<sup>2</sup>. Operational factors that contributed to the increase in gross margin<sup>3</sup> were

- higher in-province revenue due to the implementation of an approved 5.9 per cent average rate increase and higher sales due to colder weather

offset by

- reduced hydro flows in 2007/08 at 104 per cent of the long-term average in 2007/08 compared to 117 per cent of the long-term average in 2006/07, resulting in increased energy costs
- higher fuel and purchased power prices
- lower nuclear generation with a 72.8 per cent capacity factor in 2007/08 compared to 78.2 per cent capacity factor in 2006/07
- lower in-province load due to the closure of major industrial customers
- lower export sales because the incremental cost to generate electricity was not always competitive in the export market

Cash flow from operations in 2007/08 increased by \$78 million to \$316 million. This resulted primarily from the increase in net earnings.

The NB Power Group's debt increased by \$233 million in 2007/08. The increase in debt was less than the total increase in capital spending and used fuel management fund installments due to higher operating earnings and the cash portion of the lawsuit settlement with PDVSA.

## SIGNIFICANT EVENTS

Several significant events impacted the NB Power Group's financial results in 2007/08.

### Lawsuit Settlement with Petroleos De Venezuela, S.A

In August 2007, the NB Power Group reached a settlement of the lawsuit with PDVSA. The lawsuit settlement with PDVSA, valued at \$333 million, had two components

- \$115 million<sup>4</sup> cash proceeds, delivered on signing
- \$218 million<sup>5</sup> representing a commitment to deliver fuel in the future

Because the settlement represented a recovery of the capital spent to prepare the Coleson Cove Generating Station to receive and burn Orimulsion® fuel, the settlement was applied as follows

- \$29 million as a recovery against the cost of the fuel delivery system that had been previously written-off
- \$304 million against the remaining net book value of the Coleson Cove Generating Station

The Group will recognize the benefits of the settlement through reduced interest and amortization as a result of a reduction in debt levels<sup>6</sup> and a reduction in the net book value of the Coleson Cove Generating Station respectively. The settlement resulted in a \$3 million reduction in interest expense and a \$9 million reduction in amortization in 2007/08.

<sup>1</sup>Other impacts related to the lawsuit settlement with PDVSA had no impact on net earnings due to the regulatory approval of a deferral account. Refer to section Significant Events

<sup>2</sup>The \$40 million excludes the \$30 million accounting gain on de-designation of heavy fuel oil 2008/09 forward purchase contracts

<sup>3</sup>Gross margin is discussed net of the effects of the lawsuit settlement with PDVSA and related regulatory deferrals

<sup>4</sup>\$29 million was applied to offset the Coleson Cove Station conversion costs previously written off. \$86 million is a credit to the Coleson Cove Generating Station assets

<sup>5</sup>Based on forward prices and planned delivery dates at the time of settlement

<sup>6</sup>An immediate decrease in debt levels resulted from the cash portion of the settlement whereas the in-kind portion of the settlement will result in reductions to debt levels over the fuel delivery period



**Regulatory Deferral – Lawsuit Settlement with PDVSA**

On August 23, 2007 the Energy and Utilities Board (EUB) approved a deferral account for the purpose of returning the benefit of the lawsuit settlement with PDVSA to customers in a levelized manner. The deferral is being allocated to customers over 17 years in order to best match the benefit to the customers that will pay for the Coleson Cove Generating Station refurbishment. The impact of the regulatory deferral is captured in the section Impact of Lawsuit Settlement with PDVSA and Regulatory Deferral on Earnings.

**Point Lepreau Generating Station Refurbishment Project**

In July 2005 the Province of New Brunswick announced its decision to support the Board's recommendation to refurbish the Point Lepreau Generating Station in partnership with Atomic Energy of Canada Limited. The refurbishment will extend the Station's life to 2034, providing the NB Power Group with electricity from a fuel source that is not subject to the volatility of heavy fuel-oil pricing. The refurbished Station will also continue to provide an environmental benefit by generating electricity that avoids significant carbon dioxide, sulphur dioxide and nitrogen oxide emissions.

The refurbishment outage began on March 28, 2008. Overall, the Point Lepreau Generating Station Refurbishment project is progressing on schedule. Total project spending to March 31, 2008 was \$541 million.

**Regulatory Deferral – Point Lepreau Generating Station refurbishment**

Pursuant to legislation enacted in 2007, a regulatory deferral account was established related to the refurbishment of the Point Lepreau Generating Station. The purpose of this deferral is to record the normal period costs, net of any revenues, of the Station and the costs of replacement power that are charged to Disco by Nuclearco and Genco respectively during the period of refurbishment. The amounts are to be recovered by Disco over the operating life of the refurbished Point Lepreau Generating Station and are to be reflected in the charges, rates and tolls Disco charges its customers. At March 31, 2008 \$2 million in period costs and replacement power costs were deferred, which represents three days of a planned 18-month outage.

**Rate Increase**

On June 8, 2007, the NB Power Group implemented a 5.9 per cent average rate increase across all customer groups, which resulted in a \$78 million increase in revenue.



## OPERATING RESULTS 2007/08

Revenue Overview (in millions)	2007/08	2006/07	2005/06
Sales of power			
In-province	<b>\$1,237</b>	\$1,146	\$1,056
Out-of-province	<b>196</b>	215	379
Miscellaneous	<b>99</b>	67	73
Transmission	<b>87</b>	84	77
Gain on mark-to-market of long-term receivable	<b>93</b>	-	-
Total revenues	<b>\$1,712</b>	\$1,512	\$1,585
Per cent increase (decrease) year-over-year	<b>13%</b>	(5%)	13%

Total revenues were \$1,712 million in 2007/08, a \$200 million or 13 per cent increase compared to 2006/07 (refer to section Impact of Lawsuit Settlement with PDVSA and Regulatory Deferral on Earnings).

In-province sales of power (in millions)	2007/08	2006/07	2005/06
Residential	<b>\$519</b>	\$470	\$436
Industrial	<b>362</b>	350	310
General service	<b>248</b>	225	213
Wholesale	<b>94</b>	87	82
Street lights and energy imbalance	<b>14</b>	14	15
Total	<b>\$1,237</b>	\$1,146	\$1,056
GWh	<b>14,250</b>	14,342	13,886

In-province sales of power was \$1,237 million in 2007/08, representing \$91 million or eight per cent increase compared to 2006/07. The main contributors to the year-over-year variance were a

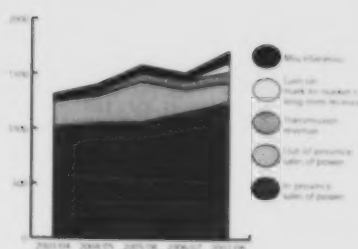
- \$78 million increase due to a 5.9 per cent average rate increase implemented on June 8, 2007
- \$17 million increase due to colder weather in 2007/08
- \$8 million increase due to higher interruptible sales, offset by increased fuel and purchased power costs offset by
- \$12 million decrease due to lower industrial sales volumes mainly related to closures in the pulp and paper industry

Out-of-province sales of power (in millions)	2007/08	2006/07	2005/06
Revenue	<b>\$196</b>	\$215	\$379
GWh	<b>2,327</b>	2,815	4,682

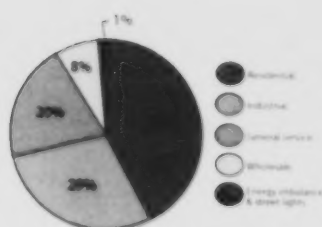
In 2007/08, out-of-province sales of power decreased by \$19 million or nine per cent compared to 2006/07. The main contributors to the year-over-year variance were

- \$35 million decrease because the incremental cost to generate electricity was not always competitive in the export market offset by
- \$13 million increase due to higher average prices for export energy

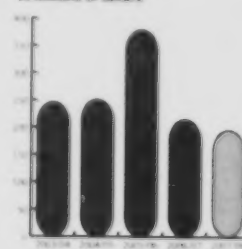
Revenue Analysis  
in millions of dollars



In-province Revenue



Out-of-province Revenue  
in millions of dollars



### Miscellaneous Revenue

Normally miscellaneous revenue consists primarily of water heater rentals, pole attachment fees, the sale of steam and generation by-products and fees for secondment services provided to the New Brunswick System Operator (System Operator). Miscellaneous revenue was \$99 million in 2007/08, an increase of \$32 million compared to 2006/07. The substantial increase was the result of the application of \$29 million of the cash portion the lawsuit settlement with PDVSA to offset a prior year write-off related to the Coleson Cove Generating Station fuel delivery system.

### Transmission Revenue

Transmission revenue represents recoveries from the System Operator for the transmission revenue requirement and includes revenue generated from the International Power Line. Transmission revenue is largely offset by transmission expenses paid to the System Operator for connection fees, point-to-point tariff and scheduling services.

## EXPENSES

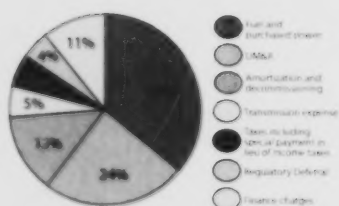
Expenses Overview (in millions)	2007/08		2006/07		2005/06	
	\$	%	\$	%	\$	%
Fuel and purchased power	\$585	36%	\$560	38%	\$512	34%
Operations, maintenance & administration	397	24	389	26	373	25
Amortization and decommissioning	216	13	220	15	217	15
Transmission	85	5	85	6	86	6
Taxes	43	3	49	3	47	3
Regulatory deferral	73	5				
Finance charges	175	11	180	12	199	13
Special payments	49	3	8	0	55	4
Special payments	\$1,623	100%	\$1,491	100%	\$1,489	100%
Percentage increase (decrease) year-over-year		9%		0%		7%

Total expenses increased by \$132 million to \$1,623 million in 2007/08. This \$132 million increase resulted mainly from

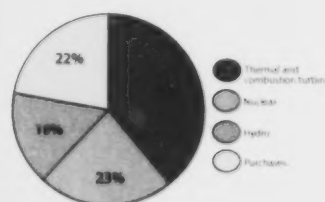
- \$25 million increase in fuel and purchased power primarily due to increased prices, lower hydro availability and lower nuclear generation in 2007/08, partially offset by lower load requirements and a \$30 million one-time gain on de-designation of heavy fuel oil forward contracts
- \$8 million increase in operations, maintenance and administration costs primarily due to increased labour expense and costs associated with forced outages in Nuclearco
- \$41 million increase in special payments in lieu of income taxes paid to New Brunswick Electric Finance Corporation (Electric Finance) due to higher year-over-year earnings
- \$73 million related to the regulatory deferral offset by
- \$6 million decrease in taxes mainly related to a reduction in the rate for the payments in lieu of provincial capital tax
- \$4 million decrease in amortization and decommissioning mainly due to the effect of the lawsuit settlement with PDVSA
- \$5 million decrease in finance charges mainly due to the cash portion of the lawsuit settlement with PDVSA

Refer to section Impact of Lawsuit Settlement with PDVSA and Regulatory Deferral on Earnings.

Total Expenses



GWh Production



### Management Discussion and Analysis

	2007/08	2006/07	2005/06
Sales of power			
In province	\$1,237	\$1,146	\$1,056
Out of province	196	215	379
Miscellaneous	99	67	73
Transmission	87	64	77
Gain on mark-to-market of long-term receivable	93		
<b>Total revenue</b>	<b>\$1,712</b>	<b>\$1,512</b>	<b>\$1,585</b>
<b>% change</b>	<b>13%</b>	<b>5%</b>	<b>1%</b>

Total revenues were \$1,712 million in 2007/08, a \$200 million or 13 per cent increase compared to 2006/07. Higher to reflect impact of Loss at Settlement with PDVSA and Regulatory Orders on Earnings.

	2007/08	2006/07	2005/06
Residential	\$519	\$470	\$436
Industrial	362	350	310
General service	248	229	213
Wholesale	94	87	82
Street lights and energy insurance	14	14	15
<b>Total</b>	<b>\$1,237</b>	<b>\$1,146</b>	<b>\$1,056</b>
<b>% change</b>	<b>14,250</b>	<b>14,342</b>	<b>13,656</b>

In-province sales of power was \$1,237 million in 2007/08, representing \$91 million (7.3 per cent) increase compared to 2006/07. The main contributors to the year-over-year variance were:

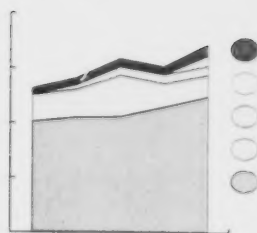
- \$78 million increase due to a 5.9 per cent average rate increase implemented by Law 5, 2007
- \$17 million increase due to colder weather in 2007/08
- \$8 million increase due to higher intensity of the sales effort by increased fee and increased power cost offset by
- \$12 million decrease due to deep industrial sales programs mainly related to recovery of the oil and gas industry.

	2007/08	2006/07	2005/06
Revenue	\$196	\$215	\$379
GWh	2,327	2,815	4,682

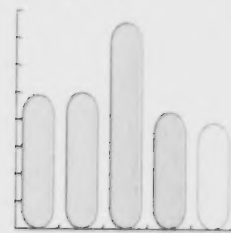
In 2007/08, out-of-province sales of power decreased to \$196 million or 9 per cent compared to 2006/07. The main contributors to the year-over-year variance were:

- \$35 million increase because the company's bid to generate electricity was not always competitive in the spot market offset by
- \$13 million increase due to higher average prices for export energy.

in millions of dollars



in millions of dollars



Normally, miscellaneous revenue consists primarily of water/water rentals, pole attachment fees, the sale of steam and generation byproducts and fees for performance services provided to the New Brunswick System Operator (System Operator). Miscellaneous revenue was \$99 million in 2007/08, an increase of \$32 million compared to 2006/07. The substantial increase was the result of the acquisition of \$29 million of the cash containing asset retirement with PDVSA to offset a prior year write-off related to the Clouston Coal Generating Station fuel burner's system.

#### Transmission

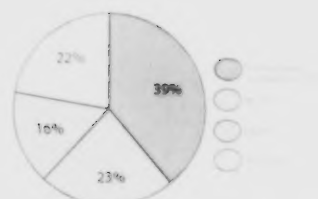
Transmission revenue represents recoveries from the System Operator for the transmission revenue requirement and includes revenue generated from the Greenidge Power Plant. Transmission revenue is largely offset by transmission expenses paid to the System Operator for transmission fees, purchased power and queueing charges.

Expenses (in millions of dollars)	2007/08		2006/07		2005/06	
	\$	%	\$	%	\$	%
Fuel and purchased power	\$585	36%	\$560	38	\$512	34
Operations, maintenance & administration	397	24	389	26	373	25
Amortization and decommissioning	216	13	220	15	217	15
Transmission	85	5	85	6	88	6
Taxes	43	3	49	3	47	3
Regulatory deferral	73	5				
Finance charges	175	11	180	12	199	13
Special payments	49	3	8	0	55	4
	\$1,623	100%	\$1,491	100	\$1,489	100
		9%		0		7

Total expenses decreased \$132 million to \$1,623 million in 2007/08. The \$132 million increase resulted mainly from:

- \$25 million increase in fuel and purchased power primarily due to increased prices, lower hydro availability and lower nuclear generation in 2007/08, partially offset by lower coal requirements and a \$29 million one-time gain on declassification of heavy fuel oil byproduct plants.
- \$8 million increase in operations, maintenance and administration costs primarily due to increased labour expense and rights expensed on throughput loss in hydro plants.
- \$41 million increase in special payments, primarily of interest fees paid to New Brunswick Electric Finance Corporation (Electric Finance), due to higher yield on cash and warrants.
- \$19 million related to the regulatory deferral charges.
- \$6 million decrease in taxes primarily related to a reduction in their rate for the payments in lieu of provincial capital tax.
- \$4 million decrease in amortization and decommissioning mainly due to the effect of the asset retirement with PDVSA.
- \$9 million decrease in finance charges mainly due to the cash portion of the asset retirement with PDVSA.

Refer to the full Power of Liberty Settlement with PDVSA and Regulatory Deferral on Earnings.





**Fuel and Purchased Power  
(in millions)**

	2007/08		2006/07		2005/06	
	\$	%	\$	%	\$	%
Hydro	\$0	0%	\$0	0%	\$0	0%
Nuclear	18	3	12	2	11	2
Thermal	230	40	297	53	351	69
Purchases	337	57	251	45	150	29
<b>Total</b>	<b>\$585</b>	<b>100%</b>	<b>\$560</b>	<b>100%</b>	<b>\$512</b>	<b>100%</b>

The cost of fuel and purchased power was \$585 million in 2007/08, an increase of \$25 million or five per cent from 2006/07, net of a \$30 million one-time gain on the de-designation of forward purchase contracts for heavy fuel oil related to 2008/09. Heavy fuel oil represented 23 per cent of these costs while purchased power from utilities in Nova Scotia, Maine, Quebec and New Brunswick accounted for 57 per cent. The year-over-year increase in fuel and purchased power costs was attributable to

- \$24 million increase in energy costs due to decreased hydro flows to 104 per cent of the long-term average in 2007/08 compared to 117 per cent in 2006/07
- \$20 million increase related to lower nuclear generation resulting in a capacity factor of 72.8 per cent in 2007/08 compared to 78.2 per cent in 2006/07
- \$3 million increase related to lower equivalent thermal generation availability of 80.5 per cent in 2007/08 compared to 89.1 per cent in 2006/07, mainly as a result of planned outages in preparation for the Point Lepreau Generating Station refurbishment outage
- \$49 million increase related to higher overall fuel and purchased power prices
- \$8 million increase due to fewer opportunities compared to 2006/07 to purchase power at favourable prices compared to internal generation costs

offset by

- \$47 million cost reduction due to reduced load requirements for large industry and export sales

The one-time gain on de-designation of forward purchase contracts for heavy fuel oil resulted from a load forecast change due to the closure of major industrial customers and the decision to purchase power rather than produce power with higher-priced internal thermal generation units. Year-over-year, the NB Power Group entered into significantly more electricity forward contracts and had fewer heavy fuel oil forward contracts (refer to Note 26).

**Operations, Maintenance and Administration  
(in millions)**

	2007/08	2006/07	2005/06
Operations, Maintenance and Administration expenses	<b>\$397</b>	<b>\$389</b>	<b>\$373</b>

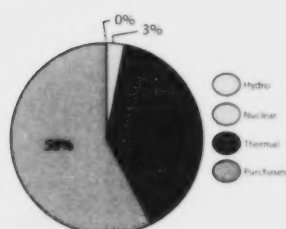
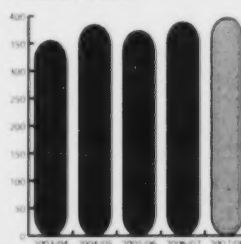
Operations, maintenance and administration costs were \$397 million in 2007/08, an \$8 million or two per cent increase compared to 2006/07. The significant changes were

- \$13 million increase in annual salaries as a result of annual scale escalations and merits
- \$4 million increase due to forced outages and other projects at the Point Lepreau Generating Station

offset by

- \$8 million decrease due to a shorter and less costly annual maintenance outage at Point Lepreau Generating Station

Fuel and Purchased Power

Operations, Maintenance and Administration  
in millions of dollars

Amortization and Decommissioning (in millions)	2007/08	2006/07	2005/06
Amortization and decommissioning	\$216	\$220	\$217

Amortization and decommissioning costs were \$216 million in 2007/08, a \$4 million decrease mainly due to

- a reduction in the cost of the Coleson Cove Generating Station resulting from the lawsuit settlement with PDVSA. The reduced amortization associated with the lawsuit settlement with PDVSA was offset through the regulatory deferral with no impact on net earnings (refer to section Impact of Lawsuit Settlement with PDVSA and Regulatory Deferral on Earnings)
- the approved amortization changes as the result of an amortization study offset by
- the write-off of certain operating equipment

Taxes (in millions)	2007/08	2006/07	2005/06
Taxes	\$43	\$49	\$47

Taxes other than special payments in lieu of income taxes were \$43 million in 2007/08, a \$6 million or 12 per cent decrease compared to 2006/07. The decrease was mainly related to a reduction in the rate for the payments in lieu of provincial capital tax.

Finance Charges (in millions)	2007/08	2006/07	2005/06
Finance charges	\$175	\$180	\$199

Finance charges were \$175 million in 2007/08, a \$5 million or three per cent decrease from 2006/07. This was mainly due to

- positive operating cash flows
- the cash portion of the lawsuit settlement with PDVSA that reduced debt balances other than those associated with major capital spending
- improved rates on debt refinancing

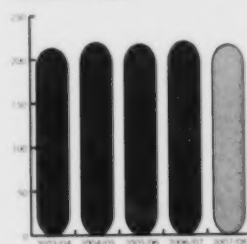
The reduced finance charges associated with the lawsuit settlement was offset through the regulatory deferral with no impact on net earnings (refer to section Impact of Lawsuit Settlement with PDVSA and Regulatory Deferral on Earnings).

Special Payments in Lieu of Income Taxes (in millions)	2007/08	2006/07	2005/06
Special payments in lieu of income taxes	\$49	\$8	\$55

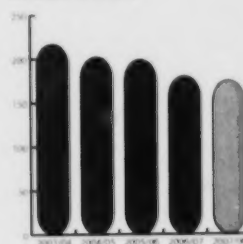
The NB Power Group made special payments in lieu of income taxes to the New Brunswick Electric Finance Corporation. These payments consist of an income tax component based on accounting net earnings multiplied by a rate of 34.47 per cent.

Special payments in lieu of income taxes were \$49 million in 2007/08, a \$41 million increase compared to 2006/07. This increase was due to higher earnings in 2007/08.

Amortization & Decommissioning  
in millions of dollars



Finance Charges  
in millions of dollars





## LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures (in millions)	2007/08	2006/07	2005/06
Major project capital expenditures	\$262	\$182	\$102
Regular project capital expenditures	\$153	110	110
Customer contributions and proceeds on disposal	\$(6)	\$(5)	\$(3)
<b>Total capital expenditures</b>	<b>\$409</b>	<b>\$287</b>	<b>\$209</b>

Capital expenditures, net of proceeds on disposal and customer contributions, were \$409 million in 2007/08. This \$122 million or 43 per cent increase compared to 2006/07 resulted primarily from

- \$46 million increase in Point Lepreau Generating Station refurbishment project spending
- \$38 million increase due to the purchase of Nepisiguit Falls Generating Station
- \$16 million increase in spending on the turbine upgrade project at Point Lepreau Generating Station
- \$28 million increase in spending related a fuel conversion project at Coleson Cove Generating Station
- \$15 million increase in regular capital spending

offset by

- \$23 million decrease due to completion of the International Power Line project

Cash Flow from Operations (in millions)	2007/08	2006/07	2005/06
Cash flow from operations	\$316	\$238	\$319

Cash flow from operations in 2007/08 increased by \$78 million to \$316 million. This resulted primarily from increased net earnings.

Reduction (Increase) in Net Debt (in millions)	2007/08	2006/07	2005/06
Cash flow from operations	\$316	\$238	\$319
Capital expenditures	(409)	(287)	(209)
Cash from lawsuit settlement with PDVSA applied to Coleson Cove Generating Station assets	86	-	-
Decrease (increase) in working capital	(80)	13	(11)
Nuclear decommissioning and used fuel management funds - installments and earnings	(141)	(13)	(40)
Other	(24)	(13)	(5)
<b>Free cash inflow (outflow)</b>	<b>\$(252)</b>	<b>\$(62)</b>	<b>\$54</b>
Dividends paid	(11)	(13)	(11)
Change in cash	30	(9)	(17)
<b>(Increase) reduction in net debt</b>	<b>\$(233)</b>	<b>\$(84)</b>	<b>\$26</b>

Free cash outflow was \$252 million in 2007/08, an increase of \$190 million compared to 2006/07. The primary reasons for the increase were

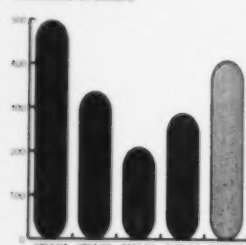
- increased capital spending due to the Point Lepreau Generating Station refurbishment project, Nepisiguit Falls Generating Station, Point Lepreau Generating Station turbine upgrade project, and the Coleson Cove Generating Station fuel conversion project
- increased working capital due to higher receivables as a result of rate increases and timing of accounts payable
- one-time installment to increase the used fuel management fund

offset by

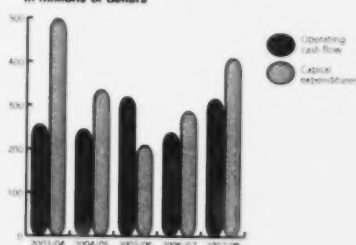
- higher cash flow from operations due to higher earnings and the cash portion of the lawsuit settlement with PDVSA

Net debt increased by \$233 million in 2007/08 compared to an \$84 million increase in 2006/07. The increase in debt was less than the total increase in capital spending and used fuel management fund installments due to higher operating earnings and the cash portion of the lawsuit settlement with PDVSA.

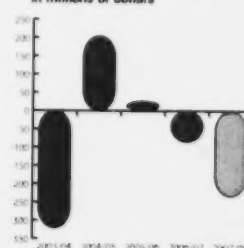
Capital Expenditures  
in millions of dollars



Components of Free Cash Flow  
in millions of dollars



Reduction in Net Debt  
in millions of dollars



Total Net Debt (in millions)	2007/08	2006/07	2004/05
Long-term debt	\$3,174	\$3,214	\$2,887
Short-term indebtedness	273	0	243
<b>Total net debt</b>	<b>3,447</b>	<b>\$3,214</b>	<b>\$3,130</b>
Debt/capital	92%	93%	93%
Cash flow from operations/total debt	0.09x	0.07x	0.1x

The NB Power Group's debt levels are increasing due to the refurbishment of the Point Lepreau Generating Station. The level of short-term borrowings fluctuates depending on the timing of debt maturities and capital investment requirements. Since restructuring on October 1, 2004 the Group issues long- and short-term notes to Electric Finance. Under the authority of the *Electricity Act*, Electric Finance issues debt in the name of the Province of New Brunswick.

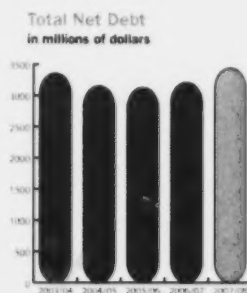
### IMPACT OF LAWSUIT SETTLEMENT WITH PDVSA AND REGULATORY DEFERRAL ON EARNINGS

Combined Statement of Earnings restated to isolate the impact of the lawsuit settlement with PDVSA and the regulatory deferral

Year ended March 31 (in millions)	2007/08	PDVSA settlement and regulatory deferral impact	2007/08 excluding the lawsuit settlement with PDVSA and regulatory deferral
In-province sale of power	\$1,237	\$(30)	\$1,267
Out-of-province sale of power	196	-	196
Gain on mark-to-market of long-term receivable	\$93	\$93	-
Miscellaneous revenue	99	29	70
Transmission	87	-	87
<b>Total revenue</b>	<b>\$1,712</b>	<b>\$92</b>	<b>\$1,620</b>
Fuel and purchased power expense	585	-	585
Transmission expense	85	-	85
Operations, maintenance and administration	397	-	397
Regulatory deferral	73	75	(2)
Amortization and decommissioning	216	(9)	225
Taxes	43	-	43
<b>Total operating expenses</b>	<b>\$1,399</b>	<b>\$66</b>	<b>\$1,333</b>
Earnings before finance charges and special payments in lieu of income taxes	\$313	\$26	\$287
Finance charges	175	(3)	178
Earnings before special payments in lieu of income taxes	\$138	\$29	\$109
Special payments in lieu of income tax	49	10	39
<b>Net Earnings</b>	<b>\$89</b>	<b>\$19</b>	<b>\$70</b>

The following components of the lawsuit settlement and regulatory deferral impacted earnings before special payments in lieu of income taxes

- \$93 million gain on the mark-to-market of the long-term receivable
- \$29 million increase in miscellaneous revenue related to the application of a portion of the cash proceeds to offset a prior year write-off related to the Coleson Cove fuel delivery system



- \$9 million reduction in amortization due to the reduction in the cost of the Coleson Cove Generating Station assets as a result of the lawsuit settlement with PDVSA
- offset by
- \$75 million deferral related to returning to customers the benefit of the lawsuit settlement in a levelized manner over 17 years to ensure the reduced fixed charges benefit the same customers that originally paid for the Coleson Cove Generating Station refurbishment
  - \$30 million reduced in-province revenue due to the change of the rate increase application from 9.6 per cent to 6.4 per cent as a result of the lawsuit settlement with PDVSA

The only impact on net earnings of the lawsuit settlement with PDVSA in 2007/08 was related to miscellaneous revenue. The other impacts were negated through the regulatory deferral.

## CRITICAL ACCOUNTING POLICIES

### Change in Accounting Policy – Financial Instruments

Effective April 1, 2007, the NB Power Group adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, Section 1530, *Comprehensive Income*, Section 3865, *Hedges*, Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3251, *Equity*. Refer to notes 4 and 5 in the combined financial statements.

The adoption of these new standards requires the NB Power Group to present the fair value of its financial instruments, even in situations where hedge accounting is permitted. Prior to adoption of these standards, only financial instruments where the NB Power Group was not permitted or did not elect to use hedge accounting were recorded at their fair values with changes in those values flowing directly through earnings.

In accordance with its forward purchasing policies and objectives, the Group enters into derivative financial instruments to manage underlying exposures. The Group formally documents all relationships between hedging instruments and hedged items, as well as its hedging objectives and strategy underlying various hedge transactions. This process includes linking all derivatives to specific assets and liabilities or to specific forecasted transactions.

The statement of other comprehensive income and the statement of accumulated other comprehensive income are new financial statements resulting from the adoption of these CICA financial instruments standards. Other comprehensive income is a temporary location for certain unrealized gains and losses that have been recorded on the balance sheet but have no impact on the statement of operations.

The unrealized gains and losses disclosed in the table below represent the difference between the market value and forward price at March 31, 2008. These values are not necessarily indicative of the actual gain or loss that will be realized in earnings when the associated forward contracts are settled. The value of the realized gains and losses will be determined at the date of settlement.

Simply stated, most of the forward contracts are held to maturity. Therefore, the unrealized gains and losses in the statement of other comprehensive income will eventually appear in the statement of earnings as a charge or credit to fuel and purchased power at a cost equivalent to the contract price.

The impact of these changes in accounting policies on the financial statements for the year ended March 31, 2008 and as at that date are as follows

## Impacts of changes in accounting policies on the financial statements for the year ended and as at March 31, 2008

Increase  
(decrease)  
(in millions)

<b>Balance sheet</b>	
Nuclear decommissioning and used fuel management funds	\$32
Long-term receivable	93
Derivative asset	62
Derivative liability	30
Future special payments in lieu of income taxes – other comprehensive income	22
<b>Other Comprehensive Income</b>	
Other comprehensive income	50
Accumulated other comprehensive income	42

## SIGNIFICANT ACCOUNTING ESTIMATES

## Amortization

The NB Power Group has an amortization review process whereby the service life of major asset categories are reviewed every five years or more frequently as circumstances warrant. These reviews include physical inspection of the asset and review of maintenance and retirement history, technological obsolescence and industry practices. During 2007/08 an independent firm performed an amortization review of the asset categories. The study confirmed that the NB Power Group's amortization practices and policies and rates are reasonable and conform to accepted amortization practices. The results from the Disco portion of the amortization study were implemented in 2007/08. Management intends to implement the recommendations for the other operating companies in 2008/09. The current estimated useful lives of assets are in Note 4(c) of the Financial Statements.

The amortization expense for the year ended March 31, 2008 was \$197 million compared to \$202 million in 2007.

## Plant Decommissioning and Used Nuclear Fuel Management

An asset retirement obligation is a legal obligation associated with the decommissioning of a long-lived asset. The NB Power Group follows the Canadian Institute of Chartered Accountants standard for asset retirement obligations which requires recognition of the net present value of these liabilities when assets are created. The key assumptions on which the liabilities are based are disclosed in Note 22 of the Financial Statements and these assumptions are updated on a periodic basis. Most of the NB Power Group's asset retirement obligations are in Nuclearco.

The NB Power Group has also established a trust fund pursuant to the *Nuclear Fuel Waste Act*. The *Nuclear Fuel Waste Act* requires major owners of used nuclear fuel in Canada to establish trust funds to finance the long-term management of used nuclear fuel. In June 2007, the Government of Canada announced its decision to accept the long-term disposal plan proposed by the Nuclear Waste Management Organization. The funding requirement, based on the accepted proposal, has not been finalized at this time. Until then the Act requires the Group to contribute \$4 million annually. An additional installment of \$125 million was made during 2007/08. Refer to Note 15 of the combined financial statements.

The thermal and nuclear decommissioning expense for the year ended March 31, 2008 is \$19 million compared to \$18 million in 2007.

### **Future Employee Benefits**

Employees of the NB Power Group belong to the Province of New Brunswick's superannuation defined benefit pension plan (refer to Note 19 of the Financial Statements). The Group also has a retirement allowance program and at times has early retirement costs (refer to Note 23).

### **Unbilled Revenue**

As the NB Power Group bills residential and general service customers on a cyclical basis, the revenue for energy supplied but not billed at the end of each fiscal period is estimated and recorded. This estimate is based on substation readings and average rates. The revenue accrued at March 31, 2008 was \$46 million compared to \$33 million in 2007.

### **Overhead to Capital**

As described in Note 4(c) of the Financial Statements, the Group adds an overhead charge to capital projects for indirect charges for administration and other expenses. The amount of overhead charged to capital in the year ended March 31, 2008 is \$20 million compared to \$11 million in 2007.

### **Long-term receivable**

As described in Note 7 of the Financial Statements, at March 31, 2008 the Group has a long-term receivable for \$218 million representing a commitment to deliver fuel in the future.





The combined financial statements of NB Power Holding Corporation (the Corporation) have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information presented throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and records properly maintained. These controls and procedures include

- system security and various financial controls
- quality standards in hiring and training of employees
- a code of conduct
- an organizational structure that provides a well-defined division of responsibilities
- performance accountability
- communication of policies and guidelines through the Corporation

Internal controls are reviewed and evaluated by audit programs, which are subject to scrutiny by external auditors.

The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee, which reviews the recommendations of internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibility has been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board of Directors.

The Corporation's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditors' Report.

The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.

The Honourable Herménégilde Chiasson  
Lieutenant-Governor of New Brunswick  
Fredericton, New Brunswick

Sir:

We have audited the combined balance sheet of New Brunswick Power Holding Corporation (the "Corporation") as at March 31, 2008 and the combined statements of earnings, other comprehensive income, deficit, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants  
Saint John, NB

July 23, 2008

*David D. Hay*  
David D. Hay  
President & CEO

*Sharon MacFarlane*  
Sharon MacFarlane  
Vice President - Finance

July 23, 2008

## COMBINED STATEMENT OF EARNINGS FOR THE YEAR ENDED MARCH 31 (IN MILLIONS)

	2008	2007
<b>Revenues</b>		
Sales of power	\$1,237	\$1,146
in-province (Note 3)	196	215
Out-of-province (Note 6)	87	84
Transmission (Note 3)	99	67
Miscellaneous	93	-
Gain on mark to market of long-term receivable (Note 7)	1,712	1,512
<b>Expenses</b>	585	560
Fuel and purchased power	85	85
Transmission (Note 3)	397	389
Operations, maintenance and administration	216	220
Amortization and decommissioning (Note 7 and 8)	43	49
Taxes (Note 9)	73	-
Regulatory deferrals (Note 3, 7 and 17)	1,399	1,303
Earnings before finance charges and special payments in lieu of income taxes	313	209
Finance charges (Note 7 and 10)	175	180
Earnings before special payments in lieu of income taxes	138	29
Special payments in lieu of income taxes (Note 11)	49	8
Net earnings	\$89	\$21

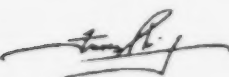
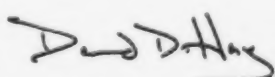
## COMBINED STATEMENT OF DEFICIT FOR THE YEAR ENDED MARCH 31 (IN MILLIONS)

	2008	2007
Deficit, beginning of year	\$(96)	\$(107)
Net earnings for the year	89	21
Dividends declared (Note 12 and 25)	(11)	(10)
Deficit, end of year	\$(18)	\$(96)

**COMBINED BALANCE SHEET AS AT MARCH 31 (IN MILLIONS)**

	2008	2007
<b>Current Assets</b>		
Cash and short-term investments (Note 13)	\$-	\$30
Accounts receivable (Note 25)	284	227
Materials, supplies and fuel	189	148
Prepaid expenses	8	6
Current portion of long-term receivable (Note 7)	90	-
Current portion of derivative assets (Note 26)	59	-
	<b>630</b>	<b>411</b>
<b>Property, Plant and Equipment (Note 14)</b>		
Land, buildings, plant and equipment, at cost	6,882	6,805
Less: accumulated amortization	3,580	3,400
	<b>3,302</b>	<b>3,405</b>
<b>Long-Term Assets</b>		
Nuclear decommissioning and used nuclear fuel management funds (Note 15)	414	241
Long-term receivable (Note 7)	217	-
Derivative assets (Note 7 and 26)	7	-
Regulatory deferrals (Note 3 and 17)	2	-
Other investments (Note 16)	6	6
	<b>646</b>	<b>247</b>
<b>Other Assets</b>		
Future special payments in lieu of income taxes	7	11
Intangible asset (Note 18)	22	-
Deferred debt costs, less amounts amortized	12	10
Deferred pension benefit (Note 19)	67	67
	<b>108</b>	<b>88</b>
<b>Total Assets</b>	<b>\$4,686</b>	<b>\$4,151</b>

On Behalf of New Brunswick Power Holding Corporation


Francis McGuire  
Chairman

David D. Hay  
President & Chief Executive Officer

**COMBINED BALANCE SHEET AS AT MARCH 31 (IN MILLIONS)**

	2008	2007
<b>Current Liabilities</b>		
Short-term indebtedness (Note 20)	<b>\$273</b>	<b>\$-</b>
Accounts payable and accruals (Note 25)	<b>291</b>	<b>260</b>
Accrued interest (Note 25)	<b>45</b>	<b>54</b>
Current portion of long-term debt (Note 21)	<b>283</b>	<b>345</b>
Current portion of derivative liabilities (Note 26)	<b>24</b>	<b>-</b>
Current portion future special payments in lieu of income taxes	<b>12</b>	<b>-</b>
	<b>928</b>	<b>659</b>
<b>Long-Term Debt (Note 21)</b>		
Debentures	<b>2,891</b>	<b>2,869</b>
<b>Deferred Liabilities</b>		
Plant decommissioning and used nuclear fuel management (Note 22)	<b>347</b>	<b>317</b>
Regulatory deferral (Note 3, 7 and 17)	<b>75</b>	<b>-</b>
Other (Note 23)	<b>78</b>	<b>75</b>
Derivative liabilities (Note 26)	<b>6</b>	<b>-</b>
Future special payments in lieu of income taxes	<b>10</b>	<b>-</b>
	<b>516</b>	<b>392</b>
<b>Shareholders' Equity</b>		
Capital stock (Note 12)	<b>140</b>	<b>140</b>
Contributed surplus	<b>187</b>	<b>187</b>
Accumulated other comprehensive income	<b>42</b>	<b>-</b>
Deficit	<b>(18)</b>	<b>(96)</b>
	<b>351</b>	<b>231</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$4,686</b>	<b>\$4,151</b>
Commitments, contingencies and guarantees see Note 27		

# COMBINED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED MARCH 31 (IN MILLIONS)

	2008	2007
Net earnings	\$89	\$21
Other comprehensive income, net of tax (Note 4,5 and 26)		
Net gain on derivatives designated as cash flow hedges <sup>1</sup>	30	-
Net gain on mark-to-market of nuclear trust funds <sup>2</sup>	3	-
Reclassification to income of losses on derivatives designated as cash flow hedges <sup>3</sup>	17	-
Other comprehensive income, net of tax	50	-
Comprehensive income	\$139	\$21

## STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED MARCH 31 (IN MILLIONS)

	2008	2007
Accumulated other comprehensive deficit, beginning of year	\$(8)	\$-
Other comprehensive income for the year (note 4,5 and 26)	50	-
Accumulated other comprehensive income, end of year	\$42	\$-

<sup>1</sup> Net of tax of \$16 million for the year ended March 31, 2008

<sup>2</sup> Net of tax of \$1 million for the year ended March 31, 2008

<sup>3</sup> Net of tax of \$9 million for the year ended March 31, 2008

**COMBINED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31 (IN MILLIONS)**

	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Net earnings for the year	<b>\$89</b>	<b>\$21</b>
Amounts charged or credited to operations not requiring a current cash payment (Note 24)	<b>227</b>	<b>217</b>
	<b>316</b>	<b>238</b>
Nuclear decommissioning and used nuclear fuel management funds installments and earnings	<b>(141)</b>	<b>(13)</b>
Decommissioning expenditures	<b>(1)</b>	<b>(3)</b>
Deferred debt costs	<b>(3)</b>	<b>(10)</b>
Long-term receivable (Note 7 and 26)	<b>(93)</b>	<b>-</b>
Regulatory deferrals (Note 3 and 7)	<b>73</b>	<b>-</b>
Net change in non-cash working capital balances	<b>(80)</b>	<b>13</b>
	<b>71</b>	<b>225</b>
<b>Investing Activities</b>		
Expenditure on property, plant and equipment, net of proceeds on disposal and customer contributions	<b>(409)</b>	<b>(287)</b>
Recovery of capital (Note 7)	<b>86</b>	<b>-</b>
	<b>(323)</b>	<b>(287)</b>
<b>Financing Activities</b>		
Debt retirements	<b>(445)</b>	<b>(233)</b>
Proceeds from issuance of long-term debt	<b>405</b>	<b>560</b>
Increase (decrease) in short-term indebtedness	<b>273</b>	<b>(243)</b>
Dividends paid	<b>(11)</b>	<b>(13)</b>
	<b>222</b>	<b>71</b>
Net cash (outflow) inflow	<b>(30)</b>	<b>9</b>
Cash, beginning of year	<b>30</b>	<b>21</b>
Cash, end of year	<b>\$-</b>	<b>\$30</b>



## 1. INCORPORATION

### Incorporation

New Brunswick Power Corporation (NB Power) was established as a Crown Corporation of the Province of New Brunswick in 1920 by enactment of the New Brunswick *Electric Power Act*.

On October 1, 2004 the Province of New Brunswick proclaimed the *Electricity Act*, which resulted in the reorganization of NB Power and the restructuring of the electricity industry in New Brunswick. NB Power was continued as New Brunswick Power Holding Corporation (Holdco) with four new operating companies that commenced operations on this date. The subsidiaries include

- New Brunswick Power Generation Corporation\* (Genco)
- New Brunswick Power Nuclear Corporation (Nuclearco)
- New Brunswick Power Transmission Corporation (Transco)
- New Brunswick Power Distribution and Customer Service Corporation (Disco)

\* including New Brunswick Power Colebrook Cove Corporation (Colebrookco) and NB Coal Limited (NB Coal), formed as subsidiaries of Genco upon restructuring

The *Electricity Act* also resulted in the establishment of the New Brunswick Electric Finance Corporation (Electric Finance), a Crown Corporation and agent of the Crown, whose purpose is to facilitate the conversion of NB Power's debt to appropriate levels in the operating companies and to assume and reduce the remaining portion of NB Power's debt.

The *Electricity Act* also resulted in the establishment of the New Brunswick System Operator (System Operator), a not-for-profit body whose primary objective is to independently direct the operation of the electricity market and maintain the long-term adequacy and reliability of the electricity system.

## 2. BASIS OF PRESENTATION

The accompanying combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a basis consistent with the preceding year. The combined financial statements include the accounts of Holdco and those of its operating companies listed above (collectively the NB Power Group or Group).

## 3. BASIS OF REGULATION

### Transco

The New Brunswick Energy and Utilities Board (EUB) regulates the Open Access Transmission Tariff (OATT). The OATT establishes non-discriminatory access to the transmission system for generators and customers inside and outside the province and generates revenues for the NB Power Group to operate and maintain the transmission system.

The System Operator has responsibility for the design and administration of the OATT. As such, Transco bills the System Operator for the majority of its revenue requirement, which the System Operator collects through the OATT from the various load and load-serving customers, including Genco, Nuclearco and Disco.

Transco's revenue requirement is based on its cost of service with an allowed rate of return of 9.5 per cent based on a deemed capital structure of 65 per cent debt and 35 per cent equity.

Regulatory assets or liabilities may arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers. As at March 31, 2008, Transco has a regulatory asset related to allowance for funds used during construction.

The EUB permits allowance for funds used during construction to be capitalized monthly on capital construction projects based on Transco's weighted average cost of capital. Allowance for funds used during construction is included in the cost of property, plant and equipment for financial reporting purposes and is amortized over future periods as part of the cost of the related asset. Since allowance for funds used during construction includes a cost-of-equity component as well as an interest component, it exceeds the amount that would be capitalized in similar circumstances in the absence of rate regulation.

It is expected that future amortization from property, plant and equipment containing allowance for funds used during construction is recoverable through the OATT. However, the expected recovery or likelihood of recovery is affected by the EUB's decisions determining Transco's revenue requirement.

## Disco

Disco is regulated under a system whereby annual average rate increases greater than three percent or the percentage change in the average Consumer Price Index, whichever is higher, require regulatory approval by the EUB.

Regulatory assets or liabilities may arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.

As of March 31, 2008, Disco has a regulatory liability related to the lawsuit settlement with PDVSA (refer to Note 7). This regulatory liability was approved by the EUB in August 2007. The purpose of the deferral is to allow for the timely reflection of the net benefits of the lawsuit settlement with PDVSA as an offset to rates charged to customers. Specifically, the projected benefits of the settlement, which will be realized over the projected 23 year remaining life of Coleson Cove Generating Station, will be accumulated in this deferral. Such accumulated projected benefits will be passed through to customers on a levelized basis over 17 years as approved by the EUB.

Disco also has a regulatory asset related to the refurbishment of the Point Lepreau Generating Station. This regulatory deferral was created as a result of legislation enacted related to the refurbishment of the Point Lepreau Generating Station. The purpose of this deferral is to record the normal period costs (net of any revenues), and the costs of replacement power, that are charged to Disco by Nuclearco and Genco respectively during the period of refurbishment. The amounts are to be recovered from customers by Disco over the operating life of the refurbished Point Lepreau Generating Station, and are to be reflected in the charges, rates and tolls charged to customers by Disco.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### A. Cash and short-term investments

Cash and short-term investments consist of balances with banks and investments in money market instruments.

### B. Materials, supplies and fuel

Inventories of materials, supplies and fuel other than nuclear fuel are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

### C. Property, plant and equipment

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest and allowance for funds used during construction, indirect charges for administration and other expenses related to capital projects, less credits for the value of power generated during commissioning and customer contributions.

Property, plant and equipment also includes the present value of asset retirement obligations related to the disposal of used nuclear fuel and decommissioning of the nuclear and thermal generating stations.

Interest during construction is capitalized monthly on capital projects based on the cost of long-term borrowings, except Transco where allowance for funds used during construction is capitalized monthly on capital projects based on the weighted average cost of capital.

Contributions in aid of construction, which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets.

The cost of distribution system assets retired, net of dismantlement and salvage, is charged to accumulated amortization as deemed appropriate by the New Brunswick Board of Commissioners of Public Utilities (now the EUB).

Amortization is provided for all assets sufficient to amortize the cost of such assets less estimated salvage value over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. All assets are amortized on a straight-line basis.

The main categories of property, plant and equipment are being amortized based on the following estimated service lives

Assets	Years
<b>Power generating stations</b>	
Nuclear generating station	29
Hydro generating facilities	35 - 100
Thermal generating stations	25 - 35
Combustion turbine generating stations	25
Transmission system	45 - 60
Terminals and substations	25 - 60
Distribution system	16 - 40
Buildings	40 - 50
Communications and computer systems	3 - 15
Mining equipment	20 - 35
Motor vehicles	3 - 18

The Group evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. If the undiscounted expected future cash flows are less than the carrying amount, an impairment loss will be recognized equal to the amount by which the carrying amount exceeds the fair value.

**D. Intangible asset**

Intangible assets are recorded at cost on the balance sheet and amortized over their estimated useful lives.

**E. Foreign exchange transactions**

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Exchange gains and losses resulting from foreign currency translation are reflected in earnings.

**F. Long-term debt**

Long-term debt is recorded on the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The estimated fair value does not include costs that would be incurred to exchange or settle the debt.

**G. Deferred debt costs**

The NB Power Group amortizes debenture discounts and premiums, and deferred interest related to debt financing, over the lives of the issues to which they pertain.

**H. Asset retirement obligations****Nuclear and thermal generating stations**

In order to provide for the estimated future costs of permanently disposing of used nuclear fuel and decommissioning the nuclear and thermal generating stations to return the sites to a state of unrestricted use, the NB Power Group recognizes these liabilities taking into account the time value of money.

The following costs have been recognized as a liability as at March 31, 2008

- the estimated present value of the fixed cost portion of used nuclear fuel management activities that are required regardless of the volume of fuel consumed and the estimated present value of the variable cost portion of used nuclear fuel management activities to take into account actual fuel volumes incurred up to March 31, 2008
- the estimated present value of the costs of decommissioning the nuclear and thermal generating stations at the end of their useful lives

The liability for used nuclear fuel management is increased for nuclear fuel bundles used each year with the corresponding amounts charged to operations through fuel expense.

The liabilities for used nuclear fuel management and nuclear and thermal plant decommissioning are increased for the passage of time by calculating accretion on the liabilities. The accretion expense is calculated using the Group's credit-adjusted risk-free rate and is included with amortization expense.

The calculations of the anticipated future costs are based on detailed studies that take into account various assumptions regarding the method and timing of dismantling the nuclear and thermal generating stations, the cost of transporting nuclear material to permanent disposal facilities and estimates of inflation rates in the future.

Expenditures incurred on a current basis relating to used nuclear fuel management and nuclear and thermal plant decommissioning are charged against the deferred liability accounts.

In view of potential developments in the decommissioning and used nuclear fuel management technologies and the various assumptions and estimates inherent in the calculations, the Group reviews such calculations periodically.

In accordance with the *Nuclear Fuel Waste Act*, which came into force in November 2002, the Nuclear Waste Management Organization was formed to prepare and review alternatives and provide recommendations for long-term management of used nuclear fuel. The Nuclear Waste Management Organization's recommendations were submitted to the federal government in November 2005. In June 2007, the Government of Canada announced its decision to accept the Nuclear Waste Management Organization proposal. The proposal was consistent with the methodology used by the NB Power Group to calculate its liability.

**Hydro generating stations**

The Group currently has no intention and is not legally obligated to decommission its hydro generating stations. With either maintenance efforts or rebuilding, the assets are expected to be used for the foreseeable future. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If at some future date it becomes possible to estimate a fair value cost of removing assets that the Group is legally required to remove, an asset retirement obligation will be recognized at that time.

**Transmission and distribution assets**

The NB Power Group expects to use the majority of its transmission and distribution assets for an indefinite period of time. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligation cannot be made at this time. If at some future date it becomes possible to estimate the fair value cost of removing assets that the Group is legally required to remove, an asset retirement obligation will be recognized at that time.

## I. Pension plans

The NB Power Group employees, excluding NB Coal employees, are members of the Province of New Brunswick Public Service Superannuation Plan. This multi-employer, defined benefit plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. Pension benefits paid are escalated each year based on the Consumer Price Index to a maximum of five or six per cent depending on retirement date. The Group and its employees make contributions to the plan as prescribed in the *Public Service Superannuation Act* and its regulations. NB Coal maintains a private defined benefit pension plan for its employees.

Under both plans, future salary levels affect the amount of employee future benefits, and therefore the projected benefit method pro-rated on service has been used to determine the accrued benefit obligation. The expected return on plan assets is based on the fair value of plan assets. Actuarial gains or losses in excess of 10 per cent of the greater of the accrued benefit obligation and the fair value of the plan assets at the beginning of the year are amortized over the expected average remaining service life of the employee group. The transitional asset (fair market value of the plan assets less the accrued benefit obligation as determined at April 1, 2000) is also amortized over the average remaining service life of the employee group.

## J. Retirement allowance

The NB Power Group has a retirement allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay. Actuarial calculations are prepared to determine the amount of the Group's obligations for retirement allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retirement allowance obligation based on projections of salaries and wages to expected retirement dates. The actuarial present value of accrued retirement allowance obligations for past service is amortized on a straight-line basis over the expected average remaining service life of the employee group.

## K. Early retirement programs

The present value of the estimated future costs of early retirement programs is charged to earnings in the year the program is accepted by employees, irrespective of when payments are actually made.

## L. Revenues

The NB Power Group recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. Billings to residential, general service and most industrial customers are rendered monthly on a cyclical basis. Industrial transmission and out-of-province customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

## M. Derivatives

In accordance with its forward purchasing policies and objectives, the NB Power Group enters into derivative financial instruments to manage certain underlying exposures. The Group formally documents all relationships between hedging instruments and hedged items, as well as its hedging objectives and strategy underlying various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

The fair value of derivative instruments eligible for cash flow hedge accounting is recognized on the balance sheet. The effective portion of changes in fair value of the hedging derivative is recorded in other comprehensive income (refer to note 4(n)) while the ineffective portion is recognized in earnings. When the hedging instrument is sold, terminated or ceases to be effective prior to maturity, hedge accounting is ceased prospectively and any gains or losses previously recorded in accumulated other comprehensive income are recognized immediately in net earnings.

## N. Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification into one of the following categories

- held-for-trading
- available-for-sale
- loans and receivables
- other liabilities

Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Group's designation of such instruments.

### Held-for-trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in net earnings. Cash, short-term investments, long-term receivable related to undelivered fuel, and derivative assets and liabilities are classified as held-for-trading.

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the NB Power Group elects to designate on initial recognition as instruments that it will measure at fair value through interest expense. These are accounted for in the same manner as held-for-trading financial assets. The Group has not designated any non-derivative financial liabilities as held-for-trading.

**Available-for-sale**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to net earnings. Nuclear Decommissioning and Used Fuel Management Funds are classified as available-for-sale.

Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

**Loans and other receivables**

Loans and other receivables are accounted for at amortized cost using the effective interest method.

**Other liabilities**

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

**Effective interest method and transaction costs**

The NB Power Group uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Transaction costs associated with held-for-trading instruments are expensed as they are incurred.

**O. Special payments in lieu of taxes**

The NB Power Group, excluding NB Coal, is required under the Electricity Act to make special payments in lieu of taxes to Electric Finance. Total special payments in lieu of taxes consist of

- an income tax component based on accounting net earnings multiplied by a rate of 34.47 per cent for the year ended March 31, 2008 as compared to 35.12 per cent for the year ended March 31, 2007
- a capital tax component based on the large corporation tax rules contained in the *New Brunswick Income Tax Act*
- future special payments in lieu of taxes on other comprehensive income based on a rate of 34.47 per cent for the year ended March 31, 2008

The Group also recognizes the future special payments in lieu of income taxes benefit of current losses when it is more likely than not that sufficient earnings will be generated in future periods to offset losses previously incurred.

Special payments in lieu of taxes are calculated at the individual company level.

**P. Consolidation of variable interest entities**

The NB Power Group has several variable interests in the form of power purchase contracts with third-party corporations. The Group has not consolidated the financial results of these third-party entities. For all of these contracts except one, it was determined that there is an insignificant amount of variability being absorbed by the Group as a result of these contracts and therefore consolidation is inappropriate.

There is one purchase power contract to purchase all the capacity and electrical energy produced by a 90 MW co-generation facility that began production in December 2004. Purchases under this contract were \$55 million for the year ended March 31, 2008 as compared to \$56 million for the year ended March 31, 2007. Pursuant to the scope exemption contained in Accounting Guidelines AcG-15 paragraph 4(g), the Group made exhaustive efforts to obtain information in order to make an assessment of whether or not the third-party corporation is a variable interest entity. The Group was not been able to obtain this information and therefore has not been able to determine if the third-party corporation is a variable interest entity. As a result, the Group has not consolidated the financial results of this third-party entity.

**Q. Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates. Refer to

- Note 8 regarding the estimate of the amortization of capital assets
- Note 17 regarding the estimate of the regulatory deferrals
- Note 19 regarding the estimate of the deferred pension benefit
- Note 22 regarding the estimate of the plant decommissioning and used nuclear fuel management liabilities
- Note 23 regarding the estimate of deferred liabilities – other







## Future accounting changes

### A) Inventories

In June 2007, the Canadian Institute of Chartered Accountants issued Section 3031, *Inventories*, replacing Section 3030, *Inventories*. The new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the NB Power Group will adopt the new standards for its fiscal year beginning April 1, 2008. It provides more guidance on the measurement and disclosure requirements for *inventories*. The Group is currently evaluating the impact of the adoption of this new Section on its combined financial statements.

### B) Financial instruments

In December 2006, the Canadian Institute of Chartered Accountants issued

- Section 3862, *Financial Instruments – Disclosures*
- Section 3863, *Financial Instruments – Presentation*
- Section 1535, *Capital Disclosures*.

All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the NB Power Group will adopt the new standards for its fiscal year beginning April 1, 2008. Section 3862 on financial instruments disclosures requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed. The Group is currently evaluating the impact of the adoption of this new Section on its combined financial statements.

### C) International financial reporting standards

On February 13, 2008, the Accounting Standards Board confirmed that the use of international financial reporting standards will be required by January 1, 2011, with appropriate comparative data from the prior year. Accordingly, the NB Power Group will adopt the new standards for its fiscal year beginning April 1, 2011. While international financial reporting standards uses a conceptual framework similar to Canadian generally accepted accounting principles, there are significant differences in accounting policy that must be addressed. The Group is currently evaluating the impact of the adoption of this new Section on its combined financial statements.

## 6. OUT OF PROVINCE REVENUES

Out-of-province revenues in 2007/08 include \$64 million of sales to customers in the United States, as compared to \$62 million in 2006/07 (net of forward contract gains and losses). Sales to Canadian customers in 2007/08 were \$132 million as compared to \$153 million in 2006/07.

## 7. LONG-TERM RECEIVABLE

On August 3, 2007, the NB Power Group reached a settlement of the lawsuit with PDVSA. The lawsuit settlement, valued at \$333 million, had two components

- \$115 million<sup>1</sup> cash proceeds, delivered on signing
- \$218 million<sup>2</sup> representing a commitment to deliver fuel in the future.

Because the settlement represented a recovery of the capital spent to prepare the Coleson Cove Generating Station to receive and burn Orimulsion<sup>®</sup> fuel it was applied as follows

- \$29 million as a recovery against the cost of the fuel delivery system that previously had been written-off
- \$304 million against the remaining net book value of Coleson Cove Generating Station

The Group will recognize the benefits of the settlement through reduced interest and amortization as a result of a reduction in debt levels<sup>3</sup> and a reduction in the net book value of the Coleson Cove Generating Station respectively. The settlement resulted in reduced interest expense of \$3 million and reduced amortization of \$9 million in 2007/08.

As approved by the EUB, the net benefit of the PDVSA settlement is being offset by a regulatory deferral which will be passed through to customers on a levelized basis over 17 years (refer to Note 3).

The financial impact of the PDVSA settlement on 2007/08 net earnings was as follows

Gain on mark-to-market of long-term receivable	\$ 93	
Reduced revenue due to a reduction in the rate increase application	(30)	
Reduced amortization expense	9	
Reduced interest expense	3	
Regulatory deferral adjustment	(105)	
Reduction to regulatory deferral (levelized benefit to customers)	30	(75)
One-time recovery of costs previously written off (included in miscellaneous income)	29	
Net impact of settlement on earnings before special payments in lieu of income taxes	29	
Special payments in lieu of income taxes	(10)	
Net impact of settlement on net earnings	\$ 19	

<sup>1</sup>\$29 million was applied to offset the Coleson Cove Station conversion costs previously written off and \$86 million is a credit to the Coleson Cove Generating Station assets

<sup>2</sup>based on forward prices and planned delivery dates at the time of settlement

<sup>3</sup>An immediate decrease in debt levels resulted from the cash portion of the settlement whereas the in-kind portion of the settlement will result in reductions to debt levels over the fuel delivery period.

## 8. AMORTIZATION AND DECOMMISSIONING

	2008	2007
Amortization	\$ 197	\$ 202
Decommissioning	19	18
Amortization and decommissioning	\$ 216	\$ 220

## 9. TAXES

	2008	2007
Property taxes	\$ 21	\$ 21
Utility and right of way taxes	17	17
Special payments in lieu of provincial capital taxes	5	11
Taxes	\$ 43	\$ 49

## 10. FINANCE CHARGES

	2008	2007
Interest expense	\$ 193	\$ 198
Less: Earnings from trust funds and other investments	(16)	(14)
	177	184
Debt portfolio management fee	21	20
Realized foreign exchange (gains) or losses	5	(2)
	203	202
Less: Interest capitalized	(28)	(22)
Finance charges	\$ 175	\$ 180

Interest paid during the year was \$203 million compared to \$204 million in 2007. Interest received on investments during the year was \$16 million compared to \$13 million in 2007.

## 11. SPECIAL PAYMENTS IN LIEU OF INCOME TAXES

	2008	2007
Earnings before special payments in lieu of income taxes	\$ 138	\$ 29
(Earnings) loss not subject to payments in lieu of income taxes	3	(3)
Earnings subject to special payments in lieu of income taxes	141	26
Income tax rate	34.47%	35.12%
	49	9
Special payments in lieu of federal capital taxes	-	(1)
Total special payments in lieu of income taxes	\$ 49	\$ 8

Taxes paid during the year were \$34 million compared to \$53 million in 2007.

## Future special payments in lieu of income taxes - other comprehensive income

	2008	2007
Other comprehensive income before special payments in lieu of income taxes	\$ 76	\$ -
Income tax rate	34.47%	35.12%
Total special payments in lieu of income taxes	\$ 26	\$ -

Special payments in lieu of income taxes are calculated at an individual company level.

## 12. CAPITAL STOCK

The NB Power Group has one Class A voting common share of nominal value, issued and outstanding to the New Brunswick Minister of Energy.

The NB Power Group has 1,006 Class B non-voting common shares issued and outstanding to Electric Finance with a stated value of \$140 million.

The NB Power Group, with Electric Finance's approval, is authorized to issue an unlimited number of Class A or Class B shares without nominal or par value.

### Dividends

The holder of the Class B shares, Electric Finance, is entitled to receive dividends when declared by the NB Power Group's Boards of Directors. The designated percentage of the dividends declared may vary based upon the discretion of the Shareholder and the financial position of the Group. The holder of the Class A share cannot be paid dividends until such time that there are no longer any Class B shares outstanding.

Dividends are declared and paid at an individual company level.

## 13. CASH AND SHORT-TERM INVESTMENTS

	2008	2007
Cash	\$ -	\$ 6
Short-term investments	-	24
Cash and short-term investments	\$ -	\$ 30

## 14. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Power generating stations	\$4,364	\$2,567	\$1,797	\$4,545	\$2,441	\$2,104
Transmission system	355	155	200	293	149	144
Terminals and substations	478	265	213	471	252	219
Distribution system	780	375	405	759	355	404
Buildings and properties	59	35	24	59	34	25
Communications and computer systems	116	83	33	106	71	35
Mining equipment	52	52	-	52	52	-
Motor vehicles	55	36	19	50	35	15
Miscellaneous assets	18	12	6	17	11	6
Construction-in-progress	605	-	605	453	-	453
Total	\$ 6,882	\$ 3,580	\$3,302	\$6,805	\$3,400	\$3,405

Construction-in-progress includes Point Lepreau Generating Station refurbishment at March 31, 2008 \$486 million (March 31, 2007 - \$346 million)

## 15. NUCLEAR DECOMMISSIONING AND USED FUEL MANAGEMENT FUNDS

The NB Power Group has established a decommissioning segregated fund held in a custodial account to meet the license conditions for the Point Lepreau Generating Station set by the Canadian Nuclear Safety Commission.

The Group has established a used nuclear fuel segregated fund held in a custodial account to meet the license conditions of the Point Lepreau Generating Station set by the Canadian Nuclear Safety Commission. Funding requirements are reviewed at the time of each license renewal (see item 1 below).

The Group has also established a trust fund pursuant to the *Nuclear Fuel Waste Act* (see item 2 below). The *Nuclear Fuel Waste Act* requires major owners of used nuclear fuel in Canada to establish trust funds to finance the long-term management of used nuclear fuel. In June 2007, the Government of Canada announced its decision to accept the long term disposal plan proposed by the Nuclear Waste Management Organization. The funding requirement, based on the accepted proposal, has not been finalized at this time. Until then the Act requires the Group to contribute \$4 million annually. The funds contained in the established funds to meet the license conditions of the Point Lepreau Generating Station will also be used to meet the *Nuclear Fuel Waste Act* requirements.

	2008	2007
<b>Nuclear Decommissioning Fund</b>		
Decommissioning segregated fund	137	117
	137	117
<b>Used Nuclear Fuel Management Funds</b>		
1. Used nuclear fuel segregated fund	232	86
2. Used nuclear fuel trust fund	45	38
	277	124
<b>Total nuclear decommissioning and used fuel management funds</b>	<b>\$ 414</b>	<b>\$ 241</b>

## 16. OTHER INVESTMENTS

The Group entered into a 15-year agreement to have an outside party build and operate an ash separation facility at the Belledune Generating Station to process the fly ash produced at the plant. The \$6 million (2007 - \$6 million) investment represents the Group's required share of the cost of the facility. Pursuant to this agreement, the Group will receive royalties on the sale of the processed ash over the term of the agreement. The investment is being amortized on a straight line basis over the life of the agreement.

## 17. REGULATORY DEFERRALS

	2008	2007
Increase to regulatory deferral liability - lawsuit settlement with PDVSA	\$ (75)	\$ -
Increase to regulatory deferral asset - Point Lepreau Generating Station refurbishment	2	-
Impact on earnings	\$ (73)	\$ -

## 18. INTANGIBLE ASSET

During the year the Group purchased a hydro generating facility. The purchase consisted of land, dam, equipment, and the assignment of a statutory right to generate electricity on the Nepisiguit River. The estimated fair market value of the assignment of rights was \$22 million and is being amortized over the remaining useful life of the facility.

## 19. DEFERRED PENSION BENEFIT

NB Power Group employees, excluding NB Coal employees, are members of the Province of New Brunswick Public Service Superannuation Plan as described in Note 4(i). Pension assets and liabilities for the Public Service Superannuation Plan are measured as at March 31, 2008 while the assets and liabilities for the NB Coal plan are measured as at December 31, 2007. The most recent actuarial valuation for funding purposes for the Public Service Superannuation Plan was completed as at April 1, 2005. The next valuation for funding purposes is required to be completed as at April 1, 2008.

Management's significant assumptions include the following

- 5.25 per cent discount rate used to determine the accrued benefit obligation compared to 5.25 per cent discount rate in 2007
- 6.25 per cent expected long-term rate of return on plan assets compared to 6.25 per cent in 2007
- 2.5 per cent salary increases compared to 2.5 per cent increases in 2007

The costs recognized for the period are

	2008	2007
Current service cost	\$ 22	\$ 21
Interest on accrued benefit obligation	63	60
Actual gain on plan assets	(2)	(79)
Difference between actual and expected return on plan assets	(62)	19
Actuarial losses on accrued benefit obligation	11	11
Difference between actuarial loss recognized for the year and actuarial loss on accrued benefit obligation for the year	(2)	(1)
Amortization of transitional asset	(3)	(3)
Costs recognized	\$ 27	\$ 28

The status of the assets and obligations of the Group's share of the Public Service Superannuation Plan and NB Coal's private plan as at March 31, 2008 was as follows

	2008	2007
Pension fund assets at fair value	\$1,035	\$1,038
Accrued benefit obligation	1,251	1,187
Pension deficit	(216)	(149)
Unamortized transitional asset	(27)	(30)
Unamortized losses	310	246
Deferred pension benefit	\$67	\$ 67

In accordance with prescribed regulations, employees contributed \$11 million in 2008 compared to \$10 million in 2007, and the Group contributed \$26 million to the plans during the year compared to \$24 million in 2007. As a result of total contributions in excess of pension expense, the NB Power Group has recorded a \$67 million deferred charge compared to \$67 million in 2007.

## 20. SHORT-TERM INDEBTEDNESS

The NB Power Group borrows funds for temporary purposes from Electric Finance. The short-term borrowings due to Electric Finance were \$273 million at March 31, 2008, as compared to nil in 2007.

## 21. LONG-TERM DEBT

The Group borrows funds from Electric Finance to finance long-term requirements. Long-term borrowings at year-end were as follows

	2008	2007
Debentures held by Electric Finance	\$3,173	\$3,214
Other	1	-
	3,174	3,214
Less: Current portion	(283)	(345)
Long-term debt	\$2,891	\$2,869

### Terms

The maturity dates of the debentures range from 2008 to 2034. The terms of the debentures are such that the Group is required to make annual principal repayments of one per cent of the original amount of each debenture on the anniversary date of its maturity. These payments will be made until the actual maturity dates of the debentures, at which time the remaining principal amounts will be repaid.

### Interest Rates

The debentures bear interest at fixed rates ranging from 4.36 to 10 per cent. The weighted average coupon interest rate on all debentures outstanding at March 31, 2008 is 5.80 per cent as compared to 6.02 per cent in 2007.

### Debt Portfolio Management Fee

The Group pays an annual debt portfolio management fee to Electric Finance amounting to 0.6489 per cent of the total of long-term debt and short-term indebtedness, measured as at the beginning of the fiscal year.

### Principal Repayments

Long-term debt principal repayments are due as follows

Year Ending	Principal Repayment
March 31, 2009	\$283
March 31, 2010	405
March 31, 2011	87
March 31, 2012	533
March 31, 2013	459
March 31, 2014 and thereafter	1,407
	\$2,891

## 22. PLANT DECOMMISSIONING AND USED NUCLEAR FUEL MANAGEMENT

The NB Power Group provides for decommissioning its thermal generating stations at the end of their service lives.

The Group's nuclear generating station produces used nuclear fuel in the form of radioactive fuel bundles. The used nuclear fuel will need to be disposed of and the nuclear station will need to be dismantled and decommissioned at the end of its service life.

The liability for plant decommissioning and used nuclear fuel management consists of the following

	2008	2007
<b>Thermal decommissioning</b>		
Balance, beginning of year	48	43
Add: Liabilities incurred, including revisions to cash flows	4	3
Add: Accretion expense	2	3
Less: Expenditures	-	(1)
Balance, end of year	54	48
<b>Nuclear Decommissioning</b>		
Balance, beginning of year	77	72
Add: Accretion expense	5	5
Balance, end of year	82	77
<b>Used nuclear fuel management</b>		
Balance, beginning of year	\$192	\$146
Add: Liabilities incurred, including revisions to cash flows	9	37
Add: Accretion expense	11	10
Less: Expenditures	(1)	(1)
Balance, end of year	211	192
<b>Total plant decommissioning and used nuclear fuel management liability</b>	<b>\$347</b>	<b>\$317</b>

### Liability for thermal decommissioning

The liability for thermal decommissioning represents the costs of decommissioning the thermal generating stations after the end of their service lives. The liability is not funded. The key assumptions on which the liability is based are the following

- \$123 million is the total undiscounted amount of the estimated cash flows required to settle the liability (in 2008 dollars), as compared to \$118 million in 2007. The increase is due to escalation and changes to the liability
- the decommissioning of the thermal generating stations will require cash expenditures until 2035 to settle the liability

- the credit-adjusted risk-free rates at which the estimated cash flows have been discounted are 7.1 per cent for the initial recognition of the liability and 5.3 to 6.3 per cent for the subsequent recognition of the additional liability
- inflation rate of 2.0 per cent was used in determining the asset retirement obligation

### Liability for Nuclear Decommissioning

The liability for nuclear decommissioning represents the costs of decommissioning the nuclear generating station after the end of its service life. See Note 15 for details on the funding of this liability. The key assumptions on which the liability is based are the following

- \$689 million is the total undiscounted amount of the estimated cash flows required to settle the liability (in 2008 dollars) as compared to \$675 million in 2007. The increase is due to escalation
- the decommissioning of the nuclear generating station will require cash expenditures until 2076 to settle the liability
- the credit-adjusted risk-free rates at which the estimated cash flows have been discounted are 7.1 per cent for the initial recognition of the liability and 5.9 per cent for the subsequent recognition of the additional liability
- inflation rate of 2.0 per cent was used in determining the asset retirement obligation

### Liability for Used Nuclear Fuel Management

The liability for used nuclear fuel management costs represents the cost of managing the used nuclear fuel bundles generated by the nuclear generating station. See Note 15 for details on the funding of this liability. The key assumptions on which the liability is based are the following

- \$751 million is the total undiscounted amount of the estimated cash flows required to settle the liability (in 2008 dollars), as compared to \$697 million in 2007. The increase is due to escalation and changes to the liability
- the management of the used nuclear fuel will require cash expenditures until 2174 to settle the liability
- the credit-adjusted risk-free rates at which the estimated cash flows have been discounted are 7.1 per cent for the initial recognition of the liability and 5.9 per cent and 5.2 per cent for the subsequent recognition of the additional liability
- inflation rates varying between 1.8 per cent and 3.6 per cent were used in determining the asset retirement obligation

**23. DEFERRED LIABILITIES – OTHER**

	2008	2007
Early retirement programs	\$ 48	\$ 51
Retirement allowance program	20	16
Other future employee benefits payable	4	3
NB Coal land reclamation	2	2
NB Coal environmental liability	9	9
	83	81
Less: Amounts due within one year	(5)	(6)
Deferred liabilities – other	\$ 78	\$ 75

**Early Retirement Liability**

The NB Power Group has an early retirement program as described in Note 4(k). The latest actuarial calculation to estimate the liability was completed as at April 1, 2005.

The discount rate used to determine the early retirement liability was 5.25 per cent as compared to 5.25 per cent in 2007.

The costs recognized for the period were

	2008	2007
Current service cost	\$ -	\$ 1
Interest on early retirement liability	3	3
Costs recognized for the year	\$3	\$ 4

The status of the obligation of the Group as at March 31, 2008 was as follows

	2008	2007
Accrued benefit obligation	\$53	\$ 54
Unamortized losses	(6)	(6)
Lump sum payable	1	3
Early retirement liability	\$48	\$51

The cumulative amount expensed in excess of amounts paid out under the early retirement program is recorded as a deferred liability.

**Retirement Allowance Liability**

The Group has a retirement allowance program as described in Note 4(j). The latest actuarial calculation to estimate the liability was completed as at April 1, 2005.

Management's significant assumptions include the following

- 5.25 per cent discount rate used to determine the retirement allowance liability, compared to 5.25 per cent in 2007
- 2.5 per cent salary increases, compared to 2.5 per cent in 2007

The costs recognized for the period were

	2008	2007
Current service cost	\$ 2	\$ 2
Interest on retirement allowance liability	4	3
Costs recognized for the year	\$6	\$5

The status of the obligation of the Corporation as at March 31, 2008 was as follows

	2008	2007
Accrued benefit obligation	\$38	\$35
Unamortized losses	(18)	(19)
Retirement allowance liability	\$20	\$16

The cumulative amount expensed in excess of amounts paid out under the retirement allowance program is recorded as a deferred liability.

**NB Coal Environmental Liability**

The Group and its subsidiary NB Coal have a long-term plan to treat acidic water drainage from an inactive mine. NB Coal has recognized an environmental liability equal to the net present value of the expected future costs using a discount rate of 7.75%.

	2008	2007
Balance, beginning of year	\$9	\$9
Add: Accretion expense	1	1
Less: Expenditures	(1)	(1)
Balance, end of year	\$9	\$9

The total undiscounted amount of the estimated cash flows required to settle the liability (in 2002 dollars) is \$11 million.

**24. AMOUNTS CHARGED OR CREDITED TO OPERATIONS NOT REQUIRING A CURRENT CASH PAYMENT**

	2008	2007
Amortization and decommissioning	\$216	\$220
Retirement expenses less related funding	3	4
Pension expense less related funding	-	3
Used nuclear fuel liabilities incurred	4	1
Future payments in lieu of income taxes	4	(11)
	\$227	\$217



## 25. RELATED PARTY TRANSACTIONS

Related parties of the NB Power Group include Electric Finance and the System Operator.

### Revenues and Expenses

The following related party revenues and expenses are included in the financial results for the year ended March 31, 2008

	Electric Finance		System Operator	
	2008	2007	2008	2007
<b>Revenues</b>				
Transmission revenue	\$-	\$-	\$87	\$84
Miscellaneous revenue	-	-	5	5
<b>Expenses</b>				
Transmission expense	-	-	85	84
Other	-	-	-	2
Interest expense	193	198	-	-
Debt portfolio management fee	21	20	-	-
Special payments in lieu of provincial capital taxes	5	11	-	-
Special payments in lieu of income taxes*	49	20	-	-

\*Excluding the future payments in lieu of income taxes provision

### Receivables and Payables

The following related party receivable and payable balances existed as at March 31, 2008

	Electric Finance		System Operator	
	2008	2007	2008	2007
Accounts receivable	\$9	\$-	\$10	\$9
Accounts payable	27	4	6	10
Accrued interest payable	45	54	-	-

The amounts included in accounts receivable and accounts payable for related parties are subject to the normal payment terms extended to unrelated parties.

### Dividends

During the year the Group declared \$11 million in dividends, as compared to \$10 million in 2007, payable to Electric Finance.

### Debt and Guarantees

The Group has debt payable to Electric Finance (Note 20 and 21) as at March 31, 2008.

Electric Finance has provided certain guarantees for the Group to significant third-party creditors with respect to banking arrangements, trade payables and derivative financial instrument obligations.

## Payments to the Province of New Brunswick

During the year the Group made payments to the Province of New Brunswick for property taxes, utility taxes, and right of way taxes of \$38 million, as compared to \$38 million in 2007.

## 26. FINANCIAL INSTRUMENTS

### Fair value of derivatives

The fair value of derivatives have been estimated by reference to quoted market prices or from valuations supplied by counterparties for actual or similar instruments at the balance sheet date, unless otherwise noted. The fair value of derivative assets and liabilities are as follows

	Interest Rates	Foreign Exchange	Heavy Fuel Oil	Natural Gas	Electricity	Freight	Total
Current portion of derivative assets	-	-	21	19	9	10	59
Long-term portion of derivative assets	-	1	-	1	2	3	7
Current portion of derivative liabilities	(5)	(16)	-	-	-	-	(24)
Long-term portion of derivative liabilities	(6)	-	-	-	-	-	(6)

### Forward purchase contracts

Under forward purchase contracts, the Group exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price on the associated foreign exchange, fuel, freight price or electricity index. The differential is reflected in net earnings.

### Foreign exchange contracts

The Group enters into Canadian dollar – US dollar forward purchases to hedge exchange risk related to forecasted US dollar purchases. At March 31, 2008, the Group had outstanding foreign exchange contracts maturing over the next 17 months as follows

	2008	2007
Net commitment to purchase (\$US in millions)	\$588	\$493
Weighted average exchange rate (\$CAD / \$US)	1.0600	1.1309
Fair value asset (liability) (in millions)	\$(17)	\$7

### Heavy fuel oil contracts

The Group enters into heavy fuel oil swaps to hedge the anticipated exposure related to changes in the cost of heavy fuel oil. At March 31, 2008, the Group had outstanding heavy fuel oil contracts maturing over the next 14 months as follows:

	2008	2007
Net Notional amount (in millions of barrels)	1.0	4.9
Weighted average fixed price (in \$US per barrel) *	\$23.57	\$51.48
Fair value asset (liability) (in millions)	\$51	\$(18)

\*The effective forward rate for 2007/08 is distorted due to the significant level of sales transactions included in the net forward position. The net forward position includes the purchase of approximately 4.2 million bbls at an average price of \$54/bbl and sales transactions of approximately 3.2 million bbls at an average price of \$64/bbl.

### Natural gas contracts

The Group enters into natural gas swaps to hedge the anticipated exposure related to power purchase contracts largely based on natural gas prices. At March 31, 2008, the Group had outstanding natural gas contracts maturing over the next 18 months as follows:

	2008	2007
Notional amount (in millions of btu)	12.9	12.9
Weighted average fixed price (in \$US per btu)	\$ 10.32	\$ 11.74
Fair value asset (liability) (in millions)	\$ 20	\$ (17)

### Freight contracts

The Group enters into contracts to hedge an index price on which a portion of the fuel freight costs are based. At March 31, 2008, the Group had outstanding forward freight contracts maturing over the next 18 months as follows:

	2008	2007
Notional amount (in metric tonnes)	1,213	995
Weighted average fixed price (index value)	\$5,674	3,467
Fair value asset (in millions)	\$13	\$ 7

### Electricity contracts

The Group periodically enters into electricity swaps to hedge the anticipated exposure related to changes in electricity prices on export sales and out-of-province purchases.

At March 31, 2008, the Group had outstanding electricity sale contracts maturing over the next 45 months as follows:

	2008	2007
Net notional amount (in millions of MWh)	0.4	0.8
Weighted average fixed price (in \$ US per MWh)	\$71.00	\$70.55
Fair value asset (liability) (in millions)	\$(3)	\$(0.3)

At March 31, 2008, the Group had outstanding electricity

purchase contracts maturing over the next 18 months as follows:

	2008	2007
Net notional amount (in millions of MWh)	1.0	-
Weighted average fixed price (in \$ US per MWh)	\$ 67.84	\$ -
Fair value asset (in millions)	\$ 11	\$ -

### Interest Rate Contracts

The Group occasionally enters into contracts to hedge the interest rate risk associated with expected future borrowings. Under the interest rate contracts, the Group exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated interest rate. The differential to be paid or received is deferred and recognized over the life of the hedged debt as an adjustment to finance charges.

As of March 31, 2008, the Group had outstanding interest rate hedges maturing over the next 24 months as follows:

	2008	2007
Notional amount (in millions)	\$560	\$ 360
Fair value (in millions)	\$(14)	\$(6)

### Long-term Debt

	2008	2007
Book value (in millions)	\$3,174	\$ 3,214
Fair value (in millions)	\$3,389	\$ 3,469

### Nuclear decommissioning and used fuel management funds

	2008	2007
Cost (in millions)	\$ 382	\$ 241
Fair value (in millions)	\$ 414	\$ 267

### Long-term receivable

	2008	2007
Book value (in millions)	\$218	\$ -
Fair value (in millions)	\$307	\$ -

### Fair value of other financial assets and liabilities

The fair values of other financial assets and liabilities are not materially different from their carrying values.

**Credit risk**

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Group conducts a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an on-going basis. The maximum credit risk exposure is deemed to be the sum of accounts receivable net of applicable reserves and the total unrealized gains on other financial instruments exposed to credit risk. Accounts receivable net of applicable reserves is \$284 million, as compared to \$227 million in 2007. The total unrealized gains on other financial instruments exposed to credit risk is \$65 million, as compared to \$14 million in 2007.

**27.COMMITMENTS, CONTINGENCIES AND GUARANTEES****Belledune wharf**

The Group has entered into an operating lease for use of the port facility at Belledune expiring in 2013 with a 20-year renewal option. This lease provides for annual charges of approximately \$5 million.

**Courtenay Bay Generating Station**

The Group has entered into a lease agreement for rental of site facilities expiring in 2021 with a five-year option to extend. The tenant has repowered an existing 100 MW unit to a 230 MW combined cycle natural gas unit, which began commercial operation effective September 2001.

The Group also entered into a related power purchase and transmission access agreement expiring in 2021 with a five-year option to extend with the same third party. The Group will purchase all the electrical energy produced by the repowered 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time-to-time some or all of the electrical energy produced during the summer period.

The Group has also entered into an agreement expiring in 2015 for firm natural gas transportation service to the repowered Courtenay Bay Generating Station. The cost of transportation will be recovered from the tenant referred to in the lease of the Station.

**Power purchase agreements**

The Group has a number of other power purchase agreements with third parties

- a 20-year power purchase agreement to 2024 to purchase all the capacity and electrical energy produced by a 90 MW co-generation facility that began production in December 2004
- a purchase agreement to 2027 for 38.5 MW of capacity and energy from a co-generation facility
- the purchase of capacity and approximately 500 GWh of energy for the period December 2008 to March 2009
- a 25-year contract beginning in 2008 to purchase all the electrical energy of a 96MW wind generation facility to be constructed by third parties

- two 20-year contracts beginning in 2009 to purchase all the electrical energy of a 48MW and a 51MW wind generation facility to be constructed by third parties
- two 25-year contracts beginning in 2009 to purchase all the electrical energy of a 49.5MW and a 64.5MW wind generation facility to be constructed by a third party

**Fuel supply agreement**

On August 3, 2007 Holdco settled legal action against Petroleos de Venezuela, S.A. (PDVSA) and others. The settlement included a cash portion of \$115 million and an in-kind portion representing a commitment to deliver a specified quantity of fuel which is expected to be fulfilled by March 2010. This new fuel supply agreement with PDVSA replaces a previous fuel supply agreement with Bitor America Corporation.

**Point Lepreau Generating Station refurbishment project**

The Group will refurbish the Point Lepreau Generating Station replacing key components of the reactor and upgrading other major plant systems. This project is expected to extend the operating life of the facility to 2034.

Total construction costs, excluding fuel and purchased power costs, are budgeted at approximately \$1 billion.

The Station shut down on March 28, 2008 for completion of the retubing and refurbishment work. Project completion and Station restart is expected by the fall of 2009. Expenditures to March 31, 2008 were \$541 million (\$55 million capitalized, \$486 million construction-in-progress).

**Point Lepreau Generating Station turbine up-rate project**

The Group is proceeding with the replacement of three low pressure turbine rotors. The budget for the project is estimated to be \$65 million. This project will be completed within the Point Lepreau Generating Station outage period. Expenditures to March 31, 2008 were \$21 million.

**Transmission power line**

The Station signed Commitment Agreements with three load serving entities for the equivalent of long-term firm transmission reservations for 25 years.

**Transmission reservations**

For the purposes of delivering electricity to out-of-province markets, the Group has committed to long-term transmission reservations with the System Operator.

**Ancillary Services contracts**

The NB Power Group has entered into two Ancillary Services contracts with the System Operator. The services provided are voltage support, automatic generation control, load following, operating reserve and black start capability. At the current time the Group's obligation is to supply 90 per cent of the ancillary services for the life of the heritage assets.

## 28. SEGMENTED INFORMATION

The Group is organized and operates under five reportable business segments.

### Genco

Genco is responsible for the operation and maintenance of the oil, hydro, coal, and diesel-powered generating stations.

### Nuclearco

Nuclearco is responsible for the operation and maintenance of the Point Lepreau Generating Station.

### Transco

Transco is responsible for operating and maintaining the transmission system.

### Disco

Disco is responsible for operating and maintaining the distribution system. Disco is designated as the standard service supplier for the Province of New Brunswick and is obligated to provide standard services to residential, commercial, wholesale and industrial customers located throughout the province.

### Holdco (Unconsolidated)

Holdco provides strategic direction, governance and support to the other business segments for communications, finance, human resources, legal, governance, and risk management. It also provides shared services on a cost-recovery basis.

### Significant inter-company agreements

The Group has entered into a number of significant inter-company agreements.

#### Power purchase agreement - Disco and Nuclearco

Disco and Nuclearco entered into a power purchase agreement whereby Disco purchases 95 per cent of the Point Lepreau Generating Station's 635 MW capacity and the electricity produced. The agreement expires 25 years after the Station returns to service following refurbishment, with annual renewal options in favour of Disco thereafter.

#### Power purchase agreement - Disco and Colesonco

Disco and Colesonco entered into a 25-year tolling agreement whereby Disco purchases tolling capacity and related services to convert fuel to electricity. The agreement requires the sale of all energy generated at Coleson Cove Generating Station to Disco. It expires in March 2030.

#### Power purchase agreement - Disco and Genco

Disco and Genco entered into a long-term power purchase agreement whereby Genco supplies capacity and energy to Disco. The agreement continues until all of Genco's heritage assets, including third-party power purchase agreements, are retired or expire, or Disco reduces its nominated capacity under the terms of the agreement to zero. The commitment at March 31, 2008 was 2,425 MW of base capacity and 1,258 MW of peaking capacity.

Under the agreement, Disco sells and Genco purchases all capacity and energy Disco receives under the Disco/ Colesonco power purchase agreement. Genco is also responsible to procure and deliver fuel on behalf of Disco to Coleson Cove Generating Station.

## Financial Overview - 2008

	Genco	Nuclearco	Transco	Disco	Holdco	Eliminations	Total
	(unconsolidated)						
Sales of power							
In-province	\$(5)	\$(2)	\$-	\$1,244	\$-	\$-	\$1,237
Out-of-province	184	12	-	-	-	-	196
Inter-company	752	215	-	4	-	(971)	-
Transmission	6	1	80	-	-	-	87
Miscellaneous	26	2	8	36	27	-	99
Other inter-company	1	-	17	2	72	(92)	-
Gain on mark to market of derivative asset	93	-	-	-	-	-	93
<b>Total revenues</b>	<b>1,057</b>	<b>228</b>	<b>105</b>	<b>1,286</b>	<b>99</b>	<b>(1,063)</b>	<b>1,712</b>
Fuel and purchased power	582	21	-	950	-	(968)	585
Transmission	30	2	-	62	-	(9)	85
Operations, maintenance and administration	123	147	41	104	61	(79)	397
Amortization and decommissioning	97	59	20	37	3	-	216
Taxes	16	7	8	11	1	-	43
Regulatory deferral	-	-	-	73	-	-	73
Finance charges	121	6	10	38	7	(7)	175
Special payments in lieu of income taxes	30	(4)	9	4	10	-	49
<b>Total expenses</b>	<b>999</b>	<b>238</b>	<b>88</b>	<b>1,279</b>	<b>82</b>	<b>(1,063)</b>	<b>1,623</b>
<b>Net earnings (loss)</b>	<b>\$58</b>	<b>\$(10)</b>	<b>\$17</b>	<b>\$7</b>	<b>\$17</b>	<b>\$-</b>	<b>\$89</b>
<b>Total assets</b>	<b>\$2,119</b>	<b>\$1,325</b>	<b>\$397</b>	<b>\$796</b>	<b>\$626</b>	<b>\$(577)</b>	<b>\$4,686</b>
<b>Capital expenditures (net of customer contributions)</b>	<b>\$92</b>	<b>\$242</b>	<b>\$27</b>	<b>\$45</b>	<b>\$3</b>	<b>\$-</b>	<b>\$409</b>

## Financial Overview - 2007

	Genco	Nuclearco	Transco	Disco	Holdco	Eliminations	Total
	(unconsolidated)						
Sales of power							
In-province	\$(6)	\$-	\$-	\$1,152	\$-	\$-	\$1,146
Out-of-province	205	10	-	-	-	-	215
Inter-company	754	222	-	3	-	(979)	-
Miscellaneous	23	1	7	36	-	-	67
Transmission	5	1	78	-	-	-	84
Other inter-company	7	-	16	6	80	(109)	-
Total revenue	988	234	101	1,197	80	(1,088)	1,512
Fuel and purchased power	555	14	-	967	-	(976)	560
Transmission	30	2	-	62	-	(9)	85
Operations, maintenance and administration	120	147	41	107	59	(85)	389
Amortization and decommissioning	104	54	20	40	2	-	220
Taxes	20	8	8	13	-	-	49
Finance charges	126	7	9	37	19	(18)	180
Special payments in lieu of income taxes	10	-	8	(10)	-	-	8
Total expenses	965	232	86	1,216	80	(1,083)	1,491
Net earnings (loss)	\$23	\$2	\$15	\$(19)	\$-	\$-	\$21
Total assets	\$2,113	\$1,048	\$370	\$726	\$135	\$(241)	\$4,151
Capital expenditures	\$38	\$167	\$48	\$32	\$2	\$-	\$287

## 29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

Statement of Generation (millions of kWh)	2007/08	2006/07	2005/06	2004/05	2003/04
Hydro	2,781	3,124	3,802	2,829	3,191
Thermal	7,262	8,125	10,001	11,096	10,838
Nuclear	4,393	4,696	4,695	4,572	5,120
Combustion turbine	1	1	9	17	50
Purchases	3,909	3,139	1,898	1,848	1,371
Gross generation and purchases	18,327	19,038	20,405	20,362	20,570
Station service	794	858	961	1,006	1,012
Net generation and purchases	17,533	18,180	19,444	19,356	19,558
Losses - transformer and transmission	645	720	504	602	614 <sup>1</sup>
Total energy available for distribution	16,907	17,507	18,940	18,754	18,944

Statement of Sales (millions of kWh)	2007/08	2006/07	2005/06	2004/05	2003/04
Wholesale	1,207	1,176	1,174	1,222	1,227
Industrial	5,589	5,976	5,577	6,039	6,170
General service	2,369	2,291	2,264	2,280	2,257
Residential	5,010	4,824	4,797	4,990	4,920
Street lights	75	75	75	75	74
Total in-province sales	14,250	14,342	13,887	14,606	14,648
Interconnections	2,327	2,815	4,682	3,813	3,922
Total sales	16,577	17,157	18,569	18,419	18,570
Distribution losses	330	350	371	335	374
Total energy distributed and sold	16,907	17,507	18,940	18,754	18,944

Statement of Revenue (in millions)	2007/08	2006/07	2005/06	2004/05	2003/04
Wholesale	\$94	\$87	\$82	\$81	\$80
Industrial	362	350	310	319	306
General service	248	225	213	203	196
Residential	519	470	436	427	409
Street lights and energy imbalance	14	14	15	19	18
Total in-province sales of power	1,237	1,146	1,056	1,049	1,009
Interconnections	196	215	379	251	246
Sales of power	1,433	1,361	1,435	1,300	1,255
Gain on mark-to-market of long-term receivable	93	-	-	-	-
Miscellaneous <sup>2</sup>	99	67	73	57	55
Transmission revenue <sup>2</sup>	87	84	77	46	1
Total revenue	\$1,712	\$1,512	\$1,585	\$1,403	\$1,311

<sup>1</sup> Includes adjustment of 95 GWh primarily related to previous years.

<sup>2</sup> Certain comparative figures have been reclassified to conform to the current year's presentation.



<b>Statement of In-province Generation</b> (millions of kWh)	<b>2007/08</b>	2006/07	2005/06	2004/05	2003/04
Hydro	<b>2,698</b>	2,891	3,313	2,713	3,173
Coal and petroleum coke	<b>3,189</b>	2,756	2,387	3,392	3,388
Heavy fuel oil	<b>2,466</b>	2,632	1,527	2,029	2,150
Orimulsion®	-	383	1,388	1,643	1,315
Nuclear	<b>3,871</b>	4,142	4,146	4,031	4,345
Combustion turbine	-	-	-	3	17
Purchases	<b>2,938</b>	2,529	1,817	1,638	1,249
<b>Net generation and purchases</b>	<b>15,162</b>	15,333	14,578	15,449	15,637
Losses - transformer and transmission	<b>626</b>	673	504	602	614
<b>Total energy available for distribution</b>	<b>14,536</b>	14,660	14,074	14,847	15,023

<b>Peak Demand and Capacity</b> (MW)	<b>2007/08</b>	2006/07	2005/06	2004/05	2003/04
System net generating capacity	<b>3,297</b>	3,297	3,297	3,948	3,770
Firm capacity purchases	<b>402</b>	402	402	402	506
<b>Total available resources</b>	<b>3,699</b>	3,699	3,699	4,350	4,276
In-province system net peak demand	<b>2,992</b>	3,160	2,799	3,146	3,340
Firm exports	<b>447</b>	356	355	399	366
Operating reserve	<b>508</b>	512	561	662	657
<b>Total requirement</b>	<b>3,947</b>	4,028	3,715	4,207	4,363

<b>Operating Statistics</b>	<b>2007/08</b>	2006/07	2005/06	2004/05	2003/04
Transmission lines - km	<b>6,801</b>	6,703	6,703	6,708	6,689
Distribution lines - km	<b>20,284</b>	20,030	20,045	19,982	19,803
Residential customers	<b>306,383</b>	303,177	300,134	296,879	293,545
Industrial customers	<b>1,915</b>	1,920	1,843	1,822	1,810
General service customers	<b>24,798</b>	24,665	24,426	24,179	24,024
Non-metered customers	<b>2,417</b>	2,345	2,368	2,378	2,404
Direct customers	<b>335,513</b>	332,107	328,771	325,258	321,783
Indirect customers	<b>41,451</b>	41,100	41,889	41,672	41,656
<b>Total customers</b>	<b>376,964</b>	373,207	370,660	366,930	363,439

Positions - regular	<b>2,474</b>	2,428	2,380	2,651	2,633
Positions - temporary	<b>159</b>	91	85	83	89
Positions - NB Coal Limited	<b>66</b>	69	69	70	70
<b>Total positions*</b>	<b>2,699</b>	2,588	2,534	2,804	2,792

\* For the period post restructuring (October 1, 2004), the table only reflects energy supplied by the NB Power Group and does not reflect energy purchases made by the System Operator for in province supply

\* Refers to positions based on the Plan of Establishment. Annual reports prior to 2006/07 have reported number of employees.

**Income Statement Summary** (in millions)

	2007/08	2006/07	2005/06	2004/05	2003/04
In-province sales of power	\$1,237	\$1,146	\$1,056	\$1,049	\$1,009
Out-of-province sales of power	196	215	379	251	246
Miscellaneous revenue <sup>5</sup>	99	67	73	57	55
Gain on mark-to-market of long-term receivable	93	-	-	-	-
Transmission revenue <sup>5</sup>	87	84	77	46	1
Total fuel and purchased power	585	560	512	497	467
Transmission expenses	85	85	86	46	-
Operations, maintenance and administration	397	389	373	384	355
Regulatory deferral	73	-	-	-	-
Amortization and decommissioning	216	220	217	219	213
Taxes, other than special payments in lieu of income taxes	43	49	47	41	33
Write-off of fuel handling system costs	-	-	-	-	44
Finance charges	175	180	199	202	217
Special payments in lieu of income taxes	49	8	55	5	-
Net earnings (loss)	\$89	\$21	\$96	\$9	\$(18)

**Balance Sheet Summary March 31** (in millions)

	2007/08	2006/07	2005/06	2004/05	2003/04
<b>Assets</b>					
Current assets	\$630	\$411	\$384	\$330	\$287
Property, plant and equipment	3,302	3,405	3,280	3,273	3,146
Long-term assets	646	247	235	195	176
Other assets	108	88	70	76	120
Total assets	\$4,686	\$4,151	\$3,969	\$3,874	\$3,729

**Liabilities & Shareholders' Equity**

Current liabilities	\$928	\$659	\$762	\$956	\$817
Long-term debt	2,891	2,869	2,655	2,459	2,814
Deferred liabilities	516	392	332	323	293
Shareholders' equity	351	231	220	136	(195)
Total liabilities and shareholders' equity	\$4,686	\$4,151	\$3,969	\$3,874	\$3,729

**Cash Flow Summary** (in millions)

	2007/08	2006/07	2005/06	2004/05	2003/04
Cash flow from operations	\$316	\$238	\$319	\$245	\$256
Change in working capital	(80)	13	(11)	(51)	29
Nuclear trust fund payments	(141)	(13)	(40)	(13)	(156)
Deferred debt costs	(3)	(10)	-	-	-
Derivative assets	(93)	-	-	-	-
Regulatory deferrals	73	-	-	-	-
Other	(1)	(3)	(5)	(1)	(8)
Operating activities	71	225	263	180	121
Financing activities	222	71	(37)	158	321
Investing activities	(323)	(287)	(209)	(341)	(497)
Net cash inflow (outflow)	(30)	9	17	(3)	(55)
Cash & short-term investments					
Beginning of year	30	21	4	7	62
End of year	\$-	\$30	\$21	\$4	\$7

<sup>5</sup> Certain comparative figures have been reclassified to conform to the current year's presentation.

<b>Financial Charges</b> (in millions)	<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>	<b>2004/05</b>	<b>2003/04</b>
Interest expense	<b>\$193</b>	<b>\$198</b>	<b>\$197</b>	<b>\$223</b>	<b>\$240</b>
Income from sinking funds, trust funds, and other	<b>(16)</b>	<b>(14)</b>	<b>(10)</b>	<b>(21)</b>	<b>(31)</b>
Debt portfolio management fee	<b>21</b>	<b>20</b>	<b>20</b>	<b>21</b>	<b>20</b>
Amortization of deferred debt costs	<b>1</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>7</b>
Foreign exchange (gain) or loss	<b>5</b>	<b>(2)</b>	<b>2</b>	<b>(2)</b>	<b>(3)</b>
Interest capitalized	<b>(29)</b>	<b>(22)</b>	<b>(10)</b>	<b>(22)</b>	<b>(16)</b>
<b>Net finance charges</b>	<b>\$175</b>	<b>\$180</b>	<b>\$199</b>	<b>\$202</b>	<b>\$217</b>

<b>Financial Ratios</b>	<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>	<b>2004/05</b>	<b>2003/04</b>
Operating margin <sup>6</sup>	<b>17.1%</b>	<b>12.5%</b>	<b>20.8%</b>	<b>13.9%</b>	<b>13.9%</b>
Cash flow from operations/capital expenditures <sup>7</sup>	<b>0.77</b>	<b>0.79</b>	<b>1.53</b>	<b>0.72</b>	<b>0.52</b>
Cash flow from operations/total debt	<b>0.09</b>	<b>0.07</b>	<b>0.10</b>	<b>0.08</b>	<b>0.08</b>
Debt/capital <sup>8</sup>	<b>91%</b>	<b>93%</b>	<b>93%</b>	<b>96%</b>	<b>106%</b>
Interest coverage ratio <sup>9</sup>	<b>1.59</b>	<b>1.03</b>	<b>1.74</b>	<b>0.97</b>	<b>0.88</b>

<b>Other Statistics</b>	<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>	<b>2004/05</b>	<b>2003/04</b>
Rate increase	<b>5.9%</b>	<b>6.9%</b>	<b>6.1%</b> <sup>10</sup>	<b>2.5%</b> <sup>11</sup>	<b>2.6%</b>
CPI (New Brunswick)	<b>1.9%</b>	<b>1.7%</b>	<b>2.4%</b>	<b>1.5%</b>	<b>3.4%</b>
GDP increases (New Brunswick) <sup>12</sup>	<b>2.4%</b>	<b>3.0%</b>	<b>0.5%</b>	<b>1.4%</b>	<b>2.3%</b>
Capital expenditures (millions) <sup>13</sup>	<b>\$409</b>	<b>\$287</b>	<b>\$209</b>	<b>\$341</b>	<b>\$497</b>
Change in total debt (millions)	<b>\$233</b>	<b>\$84</b>	<b>\$(26)</b>	<b>\$(204)</b>	<b>\$321</b>
Per cent breakdown of long-term debt					
Canadian dollar	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>71%</b>
US dollar <sup>14</sup>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>29%</b>
Weighted average coupon interest rate	<b>5.8%</b>	<b>6.0%</b>	<b>6.3%</b>	<b>6.7%</b>	<b>6.9%</b>
Canadian Dollar - March 31	<b>\$0.973</b>	<b>\$0.866</b>	<b>\$0.857</b>	<b>\$0.827</b>	<b>\$0.763</b>

<sup>6</sup> Operating margin = (net income before finance charges - debt portfolio management fees) / total revenue

<sup>7</sup> Capital expenditures are net of proceeds on disposal and customer contributions

<sup>8</sup> Debt ratio = (debt) / (debt + equity), where debt = (long term debt + short term indebtedness)

<sup>9</sup> Interest coverage ratio = (net income before finance charges + (income from sinking funds, trust funds, and other investments - debt portfolio management fees)) / (interest expense)

<sup>10</sup> Reflects an overall 2.5 per cent rate increase in April 2004 (pre-restructuring) and an overall 3.0 per cent rate increase in March 2005 (post-restructuring)

<sup>11</sup> Rate increase at April 1, 2004 (does not include three per cent rate increase at March 31, 2005)

<sup>12</sup> In its 2008 budget documents, the Provincial Government restated its GDP growth rates for the past years

<sup>13</sup> Capital expenditures are net of proceeds on disposal and customer contributions

<sup>14</sup> All U.S. denominated debt was transferred to New Brunswick Electric Finance Corporation on October 1, 2004



## BOARDS OF DIRECTORS

### Francis McGuire, Chair

Mr. McGuire is the President and CEO of Major Drilling Group International Inc. He is the past Vice President of Marketing & Business Development of MITI Information Technology Inc. Mr. McGuire has also served on the Growth Works Advisory Board for New Brunswick, and is a Fellow at the Wallace McCain Institute for Business Leadership at the University of New Brunswick.

### Lise Bastarache

Ms. Bastarache is a member of the Board of Directors of the Jean Coutu Group (J/C) Inc., Laurentian Bank and Chartwell REIT, all publicly traded companies. She is also a member of the Board of Governors of l'Université de Moncton and Chair of its finance committee.

### Normand Caissie

Mr. Caissie is owner and CEO of Imperial Manufacturing Group, which manufactures metal, plastic and chemical products. He is responsible for the financial and strategic direction of nine independent companies, with facilities both in Canada and United States. Mr. Caissie is also involved in commercial real estate in strategic locations in Canada.

### David D. Hay, President & CEO

Mr. Hay is president & CEO of the NB Power Group. He has been a managing director of Delgate Inc., a senior VP and director with Merrill Lynch Canada Inc. and managing director within Merrill Lynch & Co. Inc.'s Investment Banking Division in London, England.

### Patrice Merrin Best

Ms. Merrin Best, former President and CEO of Luscar Ltd., is a director of the Alberta Energy Research Institute. From 1999 to 2003, she was Executive Vice President and Chief Operating Officer of Sheritt International Corporation. She was a member of Natural Resources Canada's National Advisory Panel on Sustainable Energy Science and Technology in 2005-2006.

### Eloi Duguay

Mr. Duguay is a civil engineer by profession. He is past-president and co-owner of Imperial Signs of Edmundston, a former city administrator for the City of Edmundston, a former director of the NB Power Group between October 2004 to December 2005, and former Deputy Minister of Business New Brunswick. Mr. Duguay has been a member of numerous professional engineer associations; he was president of the New Brunswick Economic Council 1998-1999 and is a past president of the New Brunswick Association of Professional Engineers.

### Notes

Derek Burney was the Chair of the Board until June 30, 2007.  
Norm Betts served as Chair of the Board from July to September 9, 2007.  
Francis McGuire was appointed chair of the board September 10, 2007.

### Norman M. Betts

Dr. Betts is an associate professor, Faculty of Business Administration, University of New Brunswick. He serves on the boards of several publicly traded corporations including Starfield Resources Inc., Tanzanian Royalty Exploration, Tembec Inc., Rtica Inc., Adex Mining Inc. and Chairman Capital Inc. He also serves as co-chair of the Board of Trustees of the UNB Pension Plan for Academic Employees and is a director of the Nature Conservancy of Canada for the Atlantic region.

### Edward Barrett

Mr. Barrett is the co-CEO of Barrett Corporation and Chair of Barrett Xplore. His previous posts include CEO of Barrett Marketing Group and CEO of Atlantic Rentals Ltd.

### Graham Brown

Mr. Brown is president and CEO of Carillon Canada Inc. He is past COO of Ontario Power Generation and has also been a board director with National Power in the U.K., as COO and interim CEO. He has served in a managerial capacity with several petroleum companies and as a senior advisor to Prime Minister Margaret Thatcher.

### Bernard Cyr

Mr. Cyr is the owner of Cyr Holdings Inc. (Château Moncton - Best Western - various restaurants and commercial properties). He is also franchisor of the Dooly's Group and a director of the National Bank of Canada and the Dr. Georges-L. Dumont Hospital Foundation.

### Shirley Mears

Ms. Mears is the VP Finance of Edgewater Computer Systems, Inc. and a board director and chair of the audit committee of Starfield Resources Inc. Her previous posts include Senior VP and CFO with Hydro Ottawa Holding Inc., VP and Treasurer of Zarlink Semiconductor Inc. and VP, Treasurer and VP Human Resources Canada and Corporate Taxation of Mifel Corporation.

### Jean-Marc Violette

Mr. Violette is a farmer and woodlot manager who has been active in the agriculture sector. He has served on the Farm Debt Review Board and the Farm Development Board.

### Fraser Walsh

Mr. Walsh is a former Corporate Advisor for George Weston Ltd. Other previous posts include President, Heritage Salmon Limited, Senior VP, Aquaculture, Connor Bros. Limited, as well as several senior management positions with Connors Bros. Limited. He is a member of the Board of the Atlantic Canada Opportunities Agency.

## SENIOR MANAGEMENT

David D. Hay, President & CEO, NB Power Group

Darrell Bishop, VP, NB Power Generation Corporation

Andrew Cormier, VP, Shared Services, NB Power Holding Corporation and President, NB Coal

Michael Gorman, VP, Legal, NB Power Group

Sharon MacFarlane, VP, Finance, NB Power Group

Darren Murphy, VP, NB Power Distribution & Customer Service Corporation

Wayne Snowden, VP, NB Power Transmission Corporation

Paul Thériault, VP, Human Resources, NB Power Holding Corporation

Gaëtan Thomas, VP, NB Power Nuclear Corporation

## GOVERNANCE

The companies in the NB Power Group share a common Chair, President & CEO and common directors. The Boards of Directors are responsible for directing the affairs of each of the Corporations consistent with the *Business Corporations Act* and the *Electricity Act*.

The NB Power Group has a joint Audit Committee for the holding company and all of the operating companies. Each Corporation also has an Environment, Health & Safety Committee as well as a Human Resources, Governance and Nominating Committee. In addition to these committees, NB Power Nuclear Corporation has a Nuclear Oversight Committee.

### Audit Committee

The Audit Committee is mandated to assist the Boards in meeting their responsibilities with respect to financial reporting, internal control and risk management. The committee directly interacts with the internal and external auditors.

**Audit Committee Members:** Shirley Mears (Chair), Lise Bastarache, Edward Barrett, Norman Betts and Chair of the board of directors

### Environment, Health & Safety Committees

The Environment Health & Safety Committee exists to assist the board in establishing and maintaining appropriate board policies that guide the companies in respect to the outcomes to be achieved in meeting or exceeding their environmental and safety obligations.

**Environment, Health & Safety Committee Members:** Bernard Cyr (Chair), Patrice Merin Best, Normand Caissie and the Chair of the board of directors

### Human Resources, Governance and Nominating Committees

The Human Resources, Governance and Nominating Committees have three mandates

#### 1. Human Resources

The committees in this role exist to assist the Boards in establishing and maintaining appropriate board policies to guide the companies regarding outcomes to be achieved in the management and handling of human resources.

#### 2. Governance

The committees in this role exist to assist the Boards in establishing and maintaining an effective system of corporate governance.

#### 3. Nominating

The committees in this role exist to assist the Boards in maintaining a full slate of directors with the appropriate personal characteristics, experience and skill sets that provide for a mix of competencies on the Boards and facilitates diversity of opinion and effective governance of the Corporations.

**Human Resources, Governance and Nominating Committee Members:** Lise Bastarache (Chair), Norman Betts and the Chair of the board of directors

### Nuclear Oversight Committee

The Nuclear Oversight Committee is responsible for monitoring the nuclear performance of Nuclearco, particularly with respect to safety and operations issues, oversight of any refurbishment process and nuclear risk.

**Nuclear Oversight Committee Members:** Graham Brown (Chair), Norman Betts, Fraser Walsh, Jean-Marc Violette and the Chair of the board of directors



## Capacity

The maximum power that a generating unit, generating station or other electrical apparatus can supply, usually expressed in megawatts.

## Carbon Dioxide (CO<sub>2</sub>)

A colourless, odourless, non-poisonous gas that is a normal part of the ambient air. Carbon dioxide is also a product of fossil fuel combustion. It is a greenhouse gas that traps terrestrial (i.e., infrared) radiation and contributes to the potential for global warming.

## Combined Financial Statements

The combined financial statements include accounts for Holdco and those of Genco, Nuclearco, Transco and Disco. The financial statements are referred to as combined and not consolidated. They are referred to as combined because the companies are under common management. They are not referred to as consolidated because the right and ability to obtain future economic benefits of these companies does not rest with Holdco.

## Energy

Quantity of power produced by a generating station over a period of time, measured in megawatt-hours (MWh).

## Fly Ash

Represents the finely divided particles of ash suspended in gases resulting from the combustion of fuel. Electrostatic precipitators are used to remove fly-ash from the gases prior to the release from a power plant's stack.

## Gigawatt hour (GWh)

One million kilowatt-hours.

## Kilowatt-hour (kWh)

The basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour.

## Megawatt (MW)

Unit of electrical power to measure the generating capability of a generating station or the maximum demand of an electricity consumer.

## Megawatt-hour (MWh)

One thousand kilowatt-hours.

## Net Capacity Factor

The actual station generation of power to the grid in MW divided by the ideal maximum generation of power to the grid in MW possible.

## New Brunswick Electric Finance Corporation (Electric Finance)

Crown Corporation that facilitates the conversion of NB Power's debt to appropriate levels in the subsidiary operating companies and assumes and reduces the remaining portion of NB Power's debt.

## New Brunswick Energy and Utilities Board (EUB)

An administrative tribunal charged with the economic regulation of public utilities in the province. The EUB regulates Disco in the areas of

- charges, rates and tolls for service
- requests for proposals for the supply of electricity
- any fees to be paid by transmission or wholesale customers reducing their standard service requirement or exiting standard service (exit fees)

The EUB regulates Transco in the area of the Open Access Transmission Tariff.

## New Brunswick System Operator (System Operator)

An independent, not-for-profit Crown Corporation that directs the operation of the electricity market, maintains the long-term adequacy and reliability of the electricity system and administers the Open Access Transmission Tariff.

## Nitrogen Oxides (NO<sub>x</sub>)

Gases consisting of one atom of nitrogen and varying numbers of oxygen atoms. Nitrogen oxides are produced, for example, by the combustion of fossil fuels in vehicles and electric power plants. In the atmosphere, nitrogen oxides can contribute to formation of photochemical ozone (smog) and impair visibility.

## Open Access Transmission Tariff

Establishes non-discriminatory access to the transmission system for generators and customers inside and outside the province and generates revenues for Transco to operate and maintain the transmission system, based on the cost of providing services.

## Orimulsion<sup>®</sup>

An emulsion containing about 70 per cent bitumen (thick oil) and 30 per cent water. The bitumen is extracted from the Orinoco belt in Venezuela in the northern basin of the Orinoco River.

## Power Purchase Agreements

Supply contracts between two parties for the supply of electricity.

## Renewable Portfolio Standard

Requirement that a certain amount of electricity sold in a competitive market includes some amount produced from renewable sources.

## Sulphur Dioxide (SO<sub>2</sub>)

Belongs to a family of sulphur oxide gases (SO<sub>x</sub>) and is a colourless gas. It is formed from the sulphur contained in raw materials such as coal, oil and metal-containing ores used during combustion and refining processes. Flue gas desulphurization units are used to remove SO<sub>2</sub> from the gases prior to the release from a power plant's stack.

## Standard Service Supplier

The provider responsible for supplying adequate capacity and energy to meet customer demand for those customers not served by a competitive supplier. Disco is designated as the standard service supplier for New Brunswick.

## System Average Interruption Duration Index (SAIDI)

The average total duration of interruptions during the year.

## System Average Interruption Frequency Index (SAIFI)

The average number of times each customer on the distribution system is without power annually.

To obtain additional or French copies of this report,  
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